

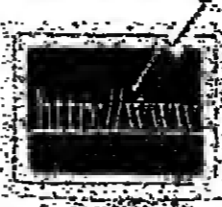
FINANCIAL TIMES



In control
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Who lost Russia?
The search for someone to blame
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Viruses and the Internet
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Benecol bonanza
Selling the health factor
Page 15

World Business Newspaper

TUESDAY MAY 7 1996

US utility to buy British electricity group for \$2.5bn

British company Midlands Electricity will announce today that it has accepted an all-cash bid from General Public Utilities of New Jersey that is likely to value the UK company at more than \$1.7bn (\$2.56bn). GPU, which will acquire Midlands in partnership with fellow US utility Cinergy of Cincinnati, approached the company less than two weeks ago after the UK government unexpectedly blocked a bid for Midlands by generating group PowerGen. Page 15

Credit Lyonnais fire may cost \$190m: The fire that devastated Crédit Lyonnais' imposing Paris headquarters could have caused more than FF1bn (\$190m) worth of damage, the French bank's chairman, Jean Peyrelevade, said. Page 2

Huntsman, the large privately-owned US chemicals company, is still pursuing British Petroleum's styrene and polystyrene business, thought to be worth more than \$200m (\$302m), after a sale agreement collapsed last year. Page 15

Sky's plans 500 channels in UK: British Sky Broadcasting, the satellite television venture, is expected to confirm plans to launch digital satellite television in the UK in autumn 1997, offering up to 500 channels. Page 14

Philippines battles kidnappings: Philippine president Fidel Ramos ordered 56 courts to concentrate exclusively on kidnapping and related cases after a survey which said the Philippines was the most dangerous country in the region in which to do business. Page 14

Worries over Italian inflation: The fall in Italy's inflation rate halted last month, raising concern that the new government would struggle to meet the 3.5 per cent end-year target. Page 2

New World infrastructure, the Hong Kong infrastructure arm spun off from New World Development last October, is considering a US\$250m five-year convertible bond issue to fund projects. Page 21

Berlin plan follows referendum defeat: Berlin and the surrounding region of Brandenburg will establish a co-operation council after the referendum defeat for their plan to merge into a single state. Page 2

Pakistan telecoms sell-off delayed: The privatisation of Pakistan Telecommunications Corporation, the monopoly telephone company, may be delayed again until October. Page 21

Waigel wants to tax pensions: German finance minister Theo Waigel called for pensions to be subject to income tax as part of a reform of the country's pension insurance system. Page 2

Israel and PLO talks end: Israeli and Palestinian negotiators ended talks on a peace settlement as Tel Aviv brushed aside accusations that it knew civilians would be killed when it bombed a UN compound in Lebanon last month. Page 4

Malaysia unveils five-year plan: Malaysia forecast slower economic growth and an eradication of its current account deficit in its seventh five-year plan. Page 6

Ex-CIA director's body is found: US police identified a body found in a Potomac River tributary near Washington DC as that of former Central Intelligence Agency director William Colby (left), who had disappeared on April 27 while canoeing. Colby, 76, was appointed to head the CIA by Richard Nixon in 1973 and ushered in an era of reforms before his term ended in 1976. Page 2

Mandela clears new 'trok': South African president Nelson Mandela signed a plan for white farmers to settle in neighbouring Mozambique in a 1990s version of their ancestors' Great Trek in the 19th century. Pretoria postpones poll. Page 4

Mexican power plant set for start: Construction on a \$647m Mexican combined cycle thermo-electric plant, for which a concession was granted in 1992, is set to begin in the next few weeks after years of delays. Page 4

Thai 'no confidence' votes: Thailand's opposition will tomorrow launch a three-day debate of no-confidence against the government of prime minister Banharn Silpa-archa - but the seven-party coalition is expected to survive. Page 6

Forest fire sweeps New Mexico: A fast-moving forest fire engulfed 25 homes and forced 2,000 people to evacuate villages in northern New Mexico. US firefighters said the 4,000-acre (1,600 ha) fire was moving through the Carson National Forest toward the Red River ski resort.

Sierra Leone boat accident kills 116: At least 116 people drowned off the coast of Sierra Leone when a boat capsized near Lungi outside the capital Freetown.

STOCK MARKET INDICES
Tokyo Nikkei closed 12,433.86 (+44.07)
New York S&P 500 5,433.86 (-4.40)
Dow Jones Ind Ave 5,433.86 (-4.40)
S&P Composite 537.23 (-4.40)

STERLING
New York 1.5080
London 1.5080

DOLLAR
New York 1.5080
DM 1.5285
FFr 5.15875
Sfr 1.24435
Y 194.91

GOLD
New York Comex 335.7 (39.1)
London markets closed

US TREASURY BONDS
Federal Funds 5.75%
3-mo Treasury Bill 5.121%
Long Bond 7.059%

INTERNATIONAL
Albania LSK 220 Germany DM4.00 Lithuania Lit 15.00 Qatar QRT 13.00
Austria SWS 200 Greece GRK 200 Luxembourg LUX 100 Singapore SSG 1.30
Belgium BRV 150 Hong Kong HKD 200 Malta MLT 100 Slovakia SVK 100
Bulgaria BUL 200 Hungary HUN 200 Morocco MDR 100 Spain ESP 100
Czech Rep CZE 200 India INR 200 Italy ITL 100 S. Africa ZAR 100
Denmark DKK 200 Israel ISR 200 Japan JPY 100 Singapore SSG 1.30
Egypt EGP 200 Italy ITL 100 Norway NOK 200 Sweden SEK 200
France FRF 100 New Zealand NZD 100 Pakistan PKR 100 Taiwan TWD 100
Germany DM 100 Poland PLN 100 Portugal PRG 100 Turkey TRK 100
Greece GRK 200 Lebanon LIB 100 South Korea KRW 100 UK GBP 100

Spain to cut spending by \$1.9bn

By Tom Burns in Madrid

Spain's new centre-right government will this week unveil a Pta250bn (\$1.9bn) package of cuts in a mini-budget emphasising its commitment to joining a single European currency.

The package, drawn up by Mr Rodrigo Rato, the new economy and finance minister, will also include tax incentives aimed at boosting investment.

The spending cuts, for the current fiscal year, amount to 0.4 per cent of gross domestic product - more than double the Pta112bn cuts suggested by Mr Pedro Solbes, the outgoing Socialist finance minister, last month.

Mr José María Aznar, the new Popular party prime minister, served notice at the weekend that his priority was to ensure Spain would be financially fit to join the first group of single currency countries. This week's package is designed to impress that commitment on the money markets.

Mr Aznar's government was sworn in yesterday and is anxious to make up for lost time - it emerged as the largest party in parliament after the March 3 general election, and has since been in complex negotiations with Catalan and Basque nationalist parties to build a working majority.

Its chief challenge is to lower a consolidated budget deficit which stood at 5.8 per cent of GDP in 1995 to 4.4 per cent at the end of this year, then to wrestle it down to 3 per cent in 1997 to meet the Maastricht treaty deficit criterion for monetary union.

The package, to be enacted by special decree, involves postponing capital spending projects across all government departments, especially public works such as roads.

Mr Aznar, who has slimmed the cabinet from 15 to 14 members, also intends to generate savings by paring back a civil service which he claims grew excessively during the 13 years of Socialist administration.

When Mr Solbes suggested a similar, although less ambitious, reassignment of planned spending in early April, the Popular party said the strategy would harm economic growth. Mr Rato's mini-budget seeks to sustain business activity by including measures to boost investment.

A key ingredient of the package is a series of tax breaks allowing companies to accelerate depreciation of fixed assets. This is in line with Mr Aznar's pledge to support business, which he called "the true motor of our economy" when he set out his government's programme at the end of last week.

Mr Aznar hopes the Bank of Spain, which has an independent status modelled on that of the Bundesbank, will further fuel growth by cutting its benchmark interest rate today when it stages its 10-day auction for bank certificates. It lowered the rate half a point to 7.75 per cent a month ago.

Given Spain's current low inflation, analysts believe the bank has room to manoeuvre. The peseta is strong and data released yesterday showed that reserves grew by \$4.3bn last month to \$50bn, 37.5 per cent up on the total at the end of April last year.

Budget package plans investment boost

of Socialist administration.

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European consortium to bid for UK missile contract

By Bernard Gray in London

A pan-European consortium has been formed to bid for the £350m (\$1.2bn) British contract to supply the Eurofighter with its main missile system.

British Aerospace and GEC of the UK have brought together Saab of Sweden, Alenia of Italy, Daimler-Benz Aerospace of Germany and Matra of France to produce a bid for the competition which must be submitted to the Ministry of Defence by next month.

The winner of the British competition, which is also likely to be contested by US manufacturers, could reap international sales worth several billion pounds.

The winning missile will almost certainly be adopted by the other Eurofighter nations - Germany, Italy and Spain - and be used on the Swedish Gripen aircraft.

Depending on the outcome of the contest, France may also eventually replace its current generation of missiles on its Rafale and Mirage 2000 aircraft with the new design.

The winner would then be virtually a monopoly supplier of long range air-to-air missiles for European-made aircraft, with substantial export prospects.

This new pan-European alliance heads off a potential split in European ranks. Matra and LFK, the missile subsidiary of Daimler-Benz Aerospace, had threatened to produce their own design for the UK contract, in competition with a longstanding BAe-GEC-Saab-Alenia grouping.

Now that has been avoided, the competition is likely to boil down to a fight between the European consortium and Hughes, the US defence electronics company, which manufactures the leading missile in the field.

The Eurofighter was originally designed to use the Hughes advanced medium range air-to-air missile (Amraam), but advances in Russian aircraft and missiles mean that a more modern weapon is needed.

Hughes can be expected to fight hard to win the UK contest, as it currently has a near

Yeltsin firm on election date, Page 3

Continued on Page 14

Spy row erupts after Moscow claims arrest of British intelligence contact

Britain threatens tit-for-tat Russian expulsions

By Jimmy Burns in London and Sander Theonnes in Moscow

Britain last night was threatening tit-for-tat expulsions of Russian diplomats as Moscow prepared to expel up to four UK diplomats in one of the biggest spying rows since the end of the Cold War.

The UK Foreign Office described Russia's proposed action as "completely unjustified" and added that if the expulsions were confirmed, "we will clearly take appropriate action ourselves".

The row started when the Russian counter-intelligence agency, the federal security service (FSB), announced yesterday that a Russian citizen had been arrested last month as he made contact with a British intelligence officer.

The Russian government made it clear that it believed it had uncovered a significant western intelligence operation, and was prepared to risk a diplomatic row by confirming the expulsion of UK diplomats, probably today.

Some analysts suggested that the move was linked to next month's Russian presidential election. Mr Andrei Ploutkovsky, a political analyst said: "The opposition accuses [President Boris] Yeltsin of being soft on the west. This is one of the easiest ways of showing you're tough."

But others argued that the expulsion of diplomats would be going much further than necessary for the government to make



A Russian militiaman guards the main gates of the British Embassy in Moscow on the day the spy row broke out

a show of strength for the voters. The FSB described the arrested man as a civil servant who had sold political and strategic secrets to London.

Mr Andrew Wood, the British ambassador, was summoned by deputy Russian foreign minister Mr Sergei Krylov, and handed a list of names of diplomats who were deemed persona non grata for alleged espionage.

"It emerged during the very first interrogations that the young man had no ideological or political motives for his work," the Itar-Tass news agency said. "He did it for the money."

If tit-for-tat expulsions go ahead they would amount to the biggest UK-Russian spy row since the expulsion of Soviet and UK diplomats and journalists in May 1999 - 11 from each country - after the UK government claimed to have uncovered a major Soviet spying network.

The FSB is one of the two main intelligence services set up following the dissolution of the KGB. Regarded as more hardline than the SVR, the foreign intelligence service, it is led by Mr Mikhail Barsukov, an outspoken critic of the west, although yesterday's move appears to have had the approval of President Yeltsin.

A recent UK parliamentary report said Russian spying activities were increasing at a time when the counter-espionage resources of MI6 were being cut by 50 per cent.

It is understood that MI6 and MI5 are prepared to identify several Russian intelligence officers working under diplomatic cover in London, who would be included in any expulsion list if the spying row deepened. The UK government has been reluctant to make any move that might push Mr Yeltsin into a more aggressive anti-western policy.

Yeltsin firm on election date, Page 3

Continued on Page 14

German labour market still weak despite fall in jobless

By Michael Lindemann in Bonn

The number of Germans out of work has fallen below 4m for the first time this year, according to official figures for April released yesterday.

But the figures were described as "disappointing" by Mr Bernhard Jagoda, head of the federal labour office, amid signs that higher than expected spending on unemployment pay could put pressure on the planned DM70bn (\$46bn) package of spending cuts unveiled by Chancellor Helmut Kohl last month.

Analysts said the improvement had come about mainly because the end of the severe winter had brought more workers on to construction sites, helping to revive the struggling construction industry, and could not be read as a sign of substantial improvements in the economy.

The headline figure for the number of people without jobs fell to 3.97m, or 10.4 per cent of the workforce, down from 4.14m

in March. The seasonally adjusted figure showed that the number of jobless had fallen by 62,000 to 3.94m, down from 4m in March, but still 265,000 more than in April last year.

Mr Jagoda said: "The need for improvement after a bitter and long winter was much greater. All-in-all the labour market figures do not represent a positive report on economic developments."

Mr Thomas Mayer, economist at the US investment bank Goldman Sachs, said: "Abstracting from weather effects, the labour market remains weak." He added: "In particular, there are no signs of a pick-up in employment or an acceleration in the moderate increase of new job openings."

Any significant improvements in the labour market would depend on a rise in business confidence which had not yet been detected, Mr Mayer said.

Mr Jagoda warned that the higher-than-expected rise in the

number of unemployed this year meant that his agency - which runs the country's unemployment offices and pays out unemployment benefit - was DM1.5bn over budget for the first four months alone.

The agency's growing deficit is likely to be of special concern to Mr Theo Waigel, Germany's finance minister, who plans to find at least DM8bn of the DM70bn planned spending cuts for 1997 by reducing the government's payments to the Nuremberg-based labour office.

In a further sign of the difficulties facing the government's DM70bn savings package, dubbed a "programme for growth and employment", the opposition Social Democrats yesterday warned that they would oppose any cuts in the size of federal government transfers to the labour office in Nuremberg.

Waigel tax plea spurs pensions debate, Page 2, Lex, Page 14

Yeltsin firm on election date, Page 3

Continued on Page 14

OPENING DOORS to capital

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Cost of Crédit Lyonnais blaze may be over FF1bn

By David Owen in Paris

The cost of the fire that ripped through Crédit Lyonnais's imposing Paris headquarters on Sunday could be more than FF1bn (\$190m), Mr Jean Peyrelevalde, the French bank's chairman, said yesterday.

As firefighters turned their attention to clearing away debris from the devastated building, Mr Peyrelevalde told journalists that the cost "must be several hundred million

francs" and was "probably more than a billion".

He said the fire was "one more difficulty" for the state-controlled institution, which recently announced a return to profit after stunning markets with a loss of FF12.1bn in 1994. "But we will resolve it," he said. "The bank will perhaps be affected, but certainly not its clients."

His remarks came as traders normally based in the bank's main

French dealing room for currency and interest rate markets - thought to have been entirely destroyed by the fire - sought to resume operations from three separate locations, with a small number dispatched to London.

Mr Peyrelevalde said the bank's market operations were continuing as normal. "The big difficulty we are having is with our internal communications, but not with the outside world," he said.

The bank said safety deposit boxes located in strong rooms in its Paris premises, which occupies a block between the Bourse and the Opéra, had not been damaged by the blaze. The building houses about 9,000 safety deposit boxes.

The bank said measures were being taken to protect the goods deposited by clients. Clients would be "informed personally" as soon as the premises were accessible.

Mr Peyrelevalde said the building,

which is classed as a historical monument and normally houses 2,500 staff, was insured for between FF1bn and FF2bn with a pool of insurers led by Assurances Générales de France this year.

Last year, the French government was forced to announce a rescue plan allowing the bank to remove FF135bn of largely loss-making loans and investments from its balance sheet.

The blaze, which involved 150

firefighters, is one of the biggest disasters to have befallen a Paris office block in recent years. Firefighters are expected to keep up surveillance of the building for at least another four days.

The inquest into the cause of the fire is expected to be long and difficult. It is not yet known whether reconstruction of the late nineteenth-century building will be possible.

Observer, Page 13

Concerns over Italian inflation target

By Robert Graham in Rome

The steady downward trend in Italy's rate of inflation halted in April, raising concern that the new government would face an uphill battle to achieve the 3.5 per cent end-year target.

Consumer prices increased 0.6 per cent in April, giving an annualised rate of 4.5 per cent, according to figures released yesterday by Istat, the official statistics institute. In the previous four months the annualised rate of inflation had consistently fallen.

An Istat statement blamed the unexpected halt on the higher cost of petrol and an increase in white meat prices as consumers switched away from red meat in the wake of the scare over mad cow disease. The figures also reflected the weight of housing in the index, with rents showing their greatest increase in April.

Representatives of the three main trade union confederations immediately claimed the outgoing caretaker government of prime minister Mr Lamberto Dini had failed to tackle inflation and called on the incoming centre-left administration to give top priority to lowering consumer prices. Statements from all three confederations said there was an urgent need to protect wages from further erosion by inflation.

Under the 1993 agreement between the government, unions and employers abolishing indexation, wage increases were linked to productivity and programmed inflation. The actual rate of inflation has been consistently at least one percentage point higher each year.

The unions did not mention a return to wage-indexation, favoured by Reconstructed Communism, formed from the hard-line of the old communists and an essential component of the centre-left government's parliamentary majority. However, they called for the introduction of an incomes policy.

The worrying aspect for the next government is that inflation remained at 4.5 per cent in April even though the lira strengthened and labour and production costs declined. In addition a six-month freeze on a number of key tariff increases is due to end in June.

Mr Antonio Fazio, the governor of the Bank of Italy, has made a cut in the discount rate conditional on inflation going below an annualised 4 per cent. Thus the April figures will also cast doubt on the central bank's ability to cut interest rates.

This cut is considered an essential step towards reducing the burden of debt service that weighs so heavily on the public accounts.

One of the main reasons for the overshoot in the latest quarterly accounts is that interest payments have failed to come down as expected.

As a rough guide it is estimated that over an 18-month period, a one percentage point cut saves L15,000bn (\$9.6bn) in interest.

Mr Dini still appears undecided whether to carry out a mini-budget to hold the 1996 budget deficit on course for L105,000bn. In recent days the size of the corrective measures required has grown from L10,000bn to nearly L20,000bn.

If the mini-budget is of this size, some increase in taxes is likely. In this case Mr Dini would prefer the incoming government to assume political responsibility.

THE FINANCIAL TIMES (Europe)
 Published by The Financial Times (Europe) GmbH, Niederwallstraße 2, 60718 Frankfurt am Main, Germany. Telephone +49 69 156 850. Fax +49 69 396 4481. Registered in Frankfurt by J. Walter Brand, Publisher. Editor: A. Kammann. Managing Director: P. Marzavigna. 41 Rue La Boétie, 75008 PARIS. Telephone (01) 376 2242. Fax (01) 376 2253. Publisher: S.A. Nord Editeur, 1521 Rue de la Chapelle, F-91000 Roissy-CDG. Editor: Richard Lambert. ISSN 1148-2775. Commission Paritaire No 670802
GERMANY:
 Responsible for Advertising: C. A. Kammann. Printer: H. H. H. International Verlagsgesellschaft mbH, Adenauer-Ringstraße 3a, 63303 Neu-Isenburg. ISSN 0174-7631. Responsible Editor: Richard Lambert. Editor: The Financial Times Limited, Number One Southbank Bridge, London SE1 9HL
FRANCE:
 Publisher: P. Marzavigna, 41 Rue La Boétie, 75008 PARIS. Telephone (01) 376 2242. Fax (01) 376 2253. Publisher: S.A. Nord Editeur, 1521 Rue de la Chapelle, F-91000 Roissy-CDG. Editor: Richard Lambert. ISSN 1148-2775. Commission Paritaire No 670802
SWEDEN:
 Responsible for Advertising: Hugh Carnegie 468 018 6082. Printer: AB Kvalitetstryckeriet. PO Box 6607, S-250 06, Helsingborg.
 © The Financial Times Limited 1996
 Editor: Richard Lambert
 © The Financial Times Limited, Number One Southbank Bridge, London SE1 9HL

INTERNATIONAL NEWS DIGEST

Ex-CIA chief's body found

A body found in a Potomac River tributary yesterday was that of Mr William Colby, former CIA director. Police said Mr Colby's widow had identified the body that washed up near their weekend home about 40 miles south of Washington.

Mr Colby, 76, who disappeared while canoeing on April 27, was renowned as the former US spy master who gave congressional investigators evidence of CIA power abuses in the 1970s and ushered in an era of reforms.

He headed the CIA from 1973 to 1976 and, in his retirement years, became one of America's best known experts on intelligence issues.

He had been the subject of a search by divers, sniffer dogs and helicopter teams since neighbours reported him missing nine days ago.

Reuters, Washington

HK slowdown confirmed

The marked slowdown in Hong Kong's economy last year was confirmed yesterday by the release of statistics showing real growth of 4.8 per cent in GDP, compared with a revised rate of 5.5 per cent for 1994.

The downturn, which saw GDP rise by just 3.2 per cent in the final quarter, compared with the same period in 1994, reflected weak consumer demand and a slowdown in export growth.

Hong Kong's government is forecasting real GDP growth of 5 per cent this year, but economists expressed caution about a rebound. Mr Ian Perkin, chief economist at the Hong Kong general chamber of commerce, said growth prospects would depend on conditions in the Chinese and US markets and on whether there was a revival in Hong Kong consumer spending.

"All those things must be doubtful at the moment," he said, referring to trade and consumption statistics for the first three months of this year. "We are going to have a weak first quarter and a weak first half, so growth will depend very much on whether there is a strong pick-up in the second half."

John Ridding, Hong Kong

Germany to reconsider land

Germany's federal constitutional court is to reconsider the case of the 3m hectares of land in eastern Germany expropriated during Soviet military rule between 1945 and 1949 but excluded from restitution following German unification in 1990.

The unification treaty of 1990 refrained from setting provisions for land expropriated between the second world war and the founding of the former East Germany in 1949, partly because of fears that the Soviet Union might block the whole unification project. Property expropriated after 1949 by the East German government or before 1945 by the Nazis was to be returned to the original owners.

The constitutional court upheld this decision in 1991 but has decided to reconsider it after a complaint by a citizen whose property was expropriated.

Frederick Stüdemann, Berlin

Jobs cloud Australian prospects

Economic data released yesterday threw up conflicting signals on the state of the Australian economy and on the extent and timing of the widely expected recovery in the second half of this year.

Statistics showed consumers were happy to spend their money and private consumption was continuing to underpin economic growth in the first quarter of 1996, but the outlook for job seekers had darkened slightly.

Retail trade rose by 0.3 per cent in March, figures released by the Australian Bureau of Statistics showed. This was the 15th rise in the last 16 months, and continued a recent pattern of being above market expectations. Real retail trade in the March quarter rose by 1.4 per cent.

Also released yesterday, however, were weak figures in the ANZ Bank's job advertisement series, a forward indicator of the labour market. Job advertisements fell 8 per cent in April, the largest monthly fall since January 1994, and are down 14 per cent in the last three months. The series was at its slowest since November 1991, when the economy was emerging from recession.

Reuters, Sydney

Hopewell firm on transit system

Hong Kong's Hopewell Holdings will maintain a majority stake in its long-delayed mass transit system for Bangkok, company chairman, Mr Gordon Wu said. He spurned offers from Italian-Thai Development, Thailand's largest contractor, and Bangkok Bank, the country's largest bank, to take over a majority interest in the \$3.2bn project, and told the Bangkok Post: "I have given the government a commitment that I will keep the majority of shares in Hopewell (Thailand), and that is one of the main conditions the government set in awarding me the project. I cannot break my commitment."

Mr Wu said his Thai subsidiary was raising its registered capital to \$1.5bn (\$930m) from \$160m and that he would sell up to 30 per cent of the company to Thai investors. "If they want more than the maximum [of 30 per cent] we cannot meet their demands," he said.

Hopewell won a 30-year concession to build and operate the mass-transit scheme in December 1990 but piling did not begin until May 1994 and there has been only limited progress since then. Thai authorities have insisted the system be ready for the 1998 Asian Games in Bangkok. For several months, government officials have been looking at ways either to get Hopewell to speed up construction or cancel the company's contract.

Ted Bardacke, Bangkok

Energy ministers to debate Italian compromise plan on liberalisation today

EU bid to break electricity deadlock

By Neil Buckley in Brussels

European Union energy ministers will today attempt to break a four-year deadlock over a proposed directive to open the electricity supply market to cross-border competition.

Italy, which holds the presidency of the council of ministers, has proposed a compromise aimed at bridging the wide gap between the positions of states such as France, which wants only limited electricity liberalisation, and Germany, which is calling for extensive and rapid liberalisation.

The Italian compromise has been broadly welcomed by member states, and officials close to the negotiations suggested yesterday there was a better chance of agreement

than at any time since the Commission proposed the directive in February 1992.

One national delegation put the chances at "50-50" but another official said member states had shown considerable political will in recent weeks to reach agreement.

The sensitivities surrounding energy liberalisation, and the widely differing demands of member states, have made this one of the single market initiatives where progress has been slowest.

In the case of electricity, disagreement centres on the initial and eventual extent to which markets will be opened to competition, the speed of opening, and whether only large end-users should be allowed to buy electricity from cross-border suppliers or

whether distribution companies should have the same right.

The compromise proposes a formula which would oblige member states to open to competition about 35 per cent of their market, accounted for by the highest electricity users. The proportion would rise in stages to about 50 per cent of the market after nine years.

Ministers have previously rejected a variety of proposals, including different targets for market liberalisation for different countries, according to the proportion of their markets accounted for by large users.

During the latest discussions France has called for more limited liberalisation, and a longer transition of 12 years, but is thought to be prepared to accept the Italian plan.

Whether agreement can be reached today may depend on Germany, which has called for closer to 40 per cent of the market to be opened after only five years. Under pressure from industrial users which complain about high German electricity prices, Bonn is keen to promote competition.

Mr Günter Rexrodt, a German minister, hinted last week that Germany was not prepared to shift very far, warning "no directive" was better than a "bad directive".

The Italian compromise also proposes that electricity distribution companies would be free to buy in the open market the volume of electricity they were supplying to those larger customers that would be in the liberalised segment of the market.

The European Commission stressed it was anxious to secure agreement soon. "This is the best time to reach a compromise," an official said. "If the debate is prolonged, that will be counter-productive."

Mr Christos Papoulias, energy commissioner, has said that if today's meeting fails to reach agreement, he will press for the issue to be debated by the European heads of government meeting in Florence next month.

There have also been suggestions the Commission could use special powers to push through a directive, or that the slow progress of energy liberalisation could become the subject of special negotiations in the intergovernmental conference on the future of the European Union.

Brandenburg vote disappoints German leaders

By Frederick Stüdemann in Berlin

The city of Berlin and the surrounding region of Brandenburg are to establish a bilateral co-operation council following the failure of the two states in Sunday's referendums to approve their merger into a single Land or state.

Mr Eberhard Diepgen, mayor of Berlin, said the council was needed to resolve disputes between the states and co-ordinate policy in areas such as structural planning, economic development and education.

The most immediate issue is where to site a new international airport for Berlin, which will be outside the city boundaries in Brandenburg. Other disputes include possible financial compensation to Berlin for Brandenburg's use of services such as schools and hospitals provided by the city.

The result of Sunday's referendums - in which Berlin voters backed the merger while Brandenburgers rejected it - was greeted with disappointment by leaders of the two main political parties, the Christian Democrats and Social Democrats, as well as representatives from the business communities in Berlin and Brandenburg. All had hoped that a merger would

deliver administrative efficiencies and stimulate investment.

"We will now have to follow the more difficult road of state treaties between the two Länder," said Mr Klaus Landowsky, leader of the CDU parliamentary party in Berlin.

Mr Erich Gerard, head of Siemens, Berlin, and president of the Association of Business Federations in Berlin-Brandenburg, said in a newspaper interview: "We will certainly experience a setback. The region is threatened with stagnation."

Opponents of the merger said the result demonstrated popular refusal to follow blindly plans served up by political and commercial élites.

"I think we were closer to the people on this," said Mr Lothar Bisky, national chairman of the Party of Democratic Socialism, the reformed East German communist party, the only major political party to oppose the merger.

In Brandenburg, a former east German state, 62.3 per cent voted against, while 64.7 per cent of east Berlin voters also opposed the move. In the western part of the city, 68.7 per cent voted in favour.

The result of the referendums is seen as a setback for proposals to restructure the German Länder system through a series of mergers to



PDS leader Lothar Bisky (above) campaigns for a No vote while Berlin mayor Eberhard Diepgen (below right) and Brandenburg PM Manfred Stolpe toast each other after the negative results.

create fewer and larger states.

"The decision clearly shows that the people do not want such big constructions," said Mr Gerhard Glogowski, interior minister in the western state of Lower Saxony, long seen as a candidate for merger with neighbouring Schleswig-Holstein and the city states of Hamburg and Bremen.

Mr Edmund Stolpe, premier of Bavaria, said the discussion over restructuring the states should not now be forgotten. Within 10 to 15 years, the number of Länder should be reduced from 16 to eight or nine, he said.



Waigel tax plea spurs pensions debate

By Wolfgang Münchau in Frankfurt

Mr Theo Waigel, the German finance minister, has called for all pensions to be made subject to income tax as part of a fundamental reform of Germany's pension insurance system.

His comments, at a party meeting in Bavaria over the weekend, reflect a growing sense of unease inside the governing coalition about the state of Germany's pension insurance system.

Under the German state insurance system, employers and employees pay contributions into a pool, which pays out pensions on a formula

based on the employee's final wage and the period of contribution.

Other senior politicians from inside the ruling coalition have warned that the current pension system is safe only for the current generation of pensioners.

From a point of view of constitutional law it is not acceptable to have tax-free pensions, while other forms of retirement income are fully taxed," Mr Waigel said.

Mr Wolfgang Gerhard, chairman of the FDP - the liberal junior partner in the coalition government - yesterday called Mr Waigel's suggestions a "public scare".

The opposition Social Democrats are also firmly opposed to a tax on pensions.

Chancellor Helmut Kohl refused to comment directly on Mr Waigel's suggestions.

The increasingly polarised debate suggests that the consensus about social policy is breaking down.

The dispute has come only a few weeks after the government announced a DM70bn (\$45.8bn) package of spending cuts. Next year, the government is planning to reform the pension system, which is in danger of collapsing under its own weight.

Mr Norbert Blüm, the labour minister and the longest serv-

ing minister in the Kohl cabinet, has come under intense fire over his support for the current system.

Critics say the system has had to take on too many extra obligations, such as the recent influx of pensioners from east Germany who are entitled to benefits but have made no contributions.

Chancellor Kohl said that the government planned to press ahead with a reform of the system by the end of 1997.

Two commissions - one chaired by Mr Waigel, another by Mr Blüm - are to prepare the groundwork for reforms of the tax and pensions systems.

Mr Kurt Biedenkopf, the

CDU premier of Saxony, called at the weekend for the replacement of the current insurance-based system with a basic state pension. Mr Horst Seehofer, the health minister, also warned that pensions may no longer be safe for the next generation of pensioners.

A sudden replacement of the contribution-based system with a crude state pension may contravene the German constitution, so any change may have to be phased in over a long period.

Proposals so far include the creation of a state pension, taxation of pensions, a rise in the pension age, or a change in the pension formula.

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Turkey crackdown on tax evasion

By John Barham in Ankara

Turkey's prime minister yesterday announced a crackdown on tax evasion as part of a drive to cut the government's budget deficit - forecast at \$11.64bn, or nearly one-quarter of public spending, this year.

In his first first economic policy statement, however, Mr Mesut Yilmaz gave no estimate on how much extra revenues his tax measures would raise.

Nor did he give any details on how he proposed to reform the country's social security system. Economists say that the informal economy accounts for at least half of Turkey's economic activity.

His remarks come ahead of the arrival in Ankara this month of an International

Monetary Fund mission to start talks on a new stand-by loan.

The statement's lack of substantial policy initiatives to tackle the deficit disappointed analysts - Mr Yilmaz's Motherland party has a highly regarded economic team.

The scale of the deficit - equivalent to about 7 per cent of GDP - is stoking inflation, which is running at 80 per cent a year. Analysts say the social security system deficit, one of the main components of the budget gap, could be 60 per cent more than the government's estimate of over \$5bn.

Mr Yilmaz, who took office in March at the head of a minority conservative coalition government, said: "The government's most important mission is to make structural reforms. There is a need to restruc-

ture the social security system. Solving the problem with state resources is not enough."

He planned to reduce the social security deficit by encouraging private retirement plans but gave no details.

He also proposed tighter controls on government infrastructure investments, which traditionally suffer large cost overruns, and to increase spending on power stations to reduce the risk of blackouts.

Economic themes dominated Mr Yilmaz's two-hour speech to journalists in Ankara. He also planned to raise the school leaving age and decentralise government.

Mr Yilmaz must surrender power in January to Mrs Tansu Ciller, his coalition partner and leader of the True Path party, under their power-sharing agreement.

السعودية

Russian president rebukes security chief for suggesting the poll be delayed

Yeltsin firm on date for election

By Sander Thoennes in Moscow and Michael Lindemann in Bonn

Mr Boris Yeltsin, the Russian president, yesterday rebuked his security chief for suggesting that next month's presidential elections should be delayed.

In an unusual rebuttal that illustrated concern for his image as the democratic incumbent, Mr Yeltsin insisted the elections would be held as scheduled.

Mr Alexander Korzhakov, chief of the Presidential Security Service and one of Mr Yeltsin's closest friends, sent a shiver down the spines of many Russians on Sunday when he said in two interviews that June's elections should be postponed to prevent bloodshed between rival parties.

Russian television broadcast new polls indicating Mr Yeltsin had caught up with Mr Gennady Zyuganov, the Commu-

nist front-runner, but other polls still show a wide gap.

"Several people, not only Korzhakov, believe that Mr Zyuganov's victory would be the beginning of a civil war," Mr Yeltsin said.

"I trust in the wisdom of Russian voters. That's why elections will be held in the period determined by the constitution."

Mr Yeltsin said he had "told Korzhakov not to meddle in politics and not to make such statements any more".

The president's remarks coincided with an appeal by a group of 13 prominent businessmen for the president to strike a compromise with Mr Zyuganov.

In a clear reference to Mr Korzhakov, the group said "extremist forces surrounding the main political players once again reared their heads" with "calls for an unconstitutional delay in elections".

A similar announcement by the group last week sparked a furious debate among politicians and the media, with most insisting that Mr Yeltsin could not invite Mr Zyuganov to join his government but should let voters decide.



President Yeltsin (left) with Alexander Korzhakov, his blunt-speaking security chief

blunt and out of kilter with his superior.

In Bonn yesterday Mr Zyuganov, who was on a private visit to Germany, warned that "political chaos" would break out if the elections were postponed.

Mr Zyuganov said any such delay would be contrary to constitutional provisions which set out the timing for Russian elections.

"That would mean that on June 17, a day after the pro-

posed election, every citizen of Russia could say: 'This is not my government. I did not vote for this president'.

It would mean that political chaos would break out in Russia."

Mr Yeltsin has consistently said the elections would be held on time, but analysts predict he may change his mind if he does poorly in the first round, on June 16. Voting on that day should be followed by a run-off vote between the two leading contenders in July.

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Hungarian bank offers help in sell-off dispute

By Virginia Marsh in Budapest

OTP, Hungary's powerful national savings bank, yesterday launched a scheme to help cash-strapped local authorities sell their minority shares in the country's partially privatised regional gas distribution companies (GDCs).

The scheme could provide a neat solution to a bitter and politically sensitive row between local government and APV, the state privatisation agency. The dispute has entangled the foreign gas companies which acquired control of the five GDCs last autumn.

Regional councils are together due to receive 40 per cent of the shares in the GDC in their area to compensate for past investments. But many are disputing the size of the

stakes they are being offered.

An unclear communist-era law has also raised hopes among minority shareholders that they may be able to claim the same price per share from foreign investors as was paid to APV for its majority stake.

Leading western utilities - including Gaz de France and Germany's RWE and Ruhrgas - paid a total of \$460m for stakes of 50 per cent plus one vote in the GDCs.

OTP is offering to pool the shares, which are due to be split among more than 1,000 town and village councils, and to sell them mainly through a share offer and a stock market listing. It is also expected to give strategic investors the chance to increase their stakes.

OTP said it would pay local authorities 30 per cent of the price per share paid by strate-

gic investors last year and split the proceeds if it managed to sell the shares for more in offerings planned for early next year. Its offer is dependent on it receiving at least 75 per cent of the councils' shares in each of the GDCs.

It claimed its offer was the best made so far to the municipalities. However, a senior privatisation official said some councils had already received far higher offers.

OTP has a virtual monopoly on local government banking. Some analysts suggested the councils, some of which are experiencing financial difficulties, might feel under pressure to sell their stakes to the bank.

OTP is being advised by Schroders, the UK merchant bank, and Creditanstalt Securities, the Austrian bank's local investment subsidiary.

Fight against inflation 'will remain priority'

Hungary's economic priorities will remain a steady reduction in inflation and net foreign indebtedness, against the background of structural reform of the social security and welfare system, according to Mr Peter Medgyessy, the Hungarian finance minister.

In an interview, Mr Medgyessy, who three months ago replaced Mr Lajos Bokros, the outspoken joint architect of Hungary's March 1995 austerity programme, said all his efforts "go towards reducing inflationary expectations and the causes of high inflation."

These include a dysfunctional social security system and high interest rates.

Inflation, which fell to an average of 29 per cent last year, should decline further to about 20 per cent by December compared with a year earlier.

Last year Hungary reduced its net foreign debt by \$1.5bn to about \$18bn. It has enjoyed a steady rise in its credit rating since the austerity package that cut government spending

Policy goals are outlined by Hungary's finance minister

and introduced higher taxes. A crawling peg devaluation system and an 8 per cent import surcharge also helped shift resources into exports and investment and cut imports.

The combination of devaluation, lower real wages and a 14 per cent rise in labour productivity in industry led to a sharp improvement in the competitiveness of Hungarian exports last year. Imports, meanwhile, were held back by the import surcharge and lower real incomes.

This year, however, Hungary faces a struggle to maintain this competitive advantage. Its currency, the forint, is appreciating in real terms at the 1.2 per cent monthly rate of crawling peg devaluation fails to keep pace with inflation, while the government plans a phased

reduction of the import surcharge.

Last year the balance of payments improved by \$1.5bn and \$4.5bn in foreign capital flowed into the country. But Hungarians paid a high price as real incomes dropped 12 per cent and consumption fell 5 per cent. "Incomes will drop a further 2 per cent and possibly more this year," the minister added.

Looking ahead, Mr Medgyessy said Hungary could expect steady growth of 3.5 per cent over the rest of the decade in the official economy, supplemented by an unofficial "black economy" which contributed an estimated additional 30 per cent to the official GDP.

A new bankruptcy law speeding up the closure of loss-making companies, and the need to service the highest per capita debt in the former communist world, were constraints which precluded the prospects for higher growth without reigniting inflation, he said.

Anthony Robinson

Nato hopefuls let their impatience show

The ex-communist states of central Europe, long frustrated by the technicalities that must be negotiated before they join the European Union, are now fretting about something else - western backsliding over Nato.

Diplomats from Poland, Hungary and the Czech Republic, seen as the prime candidates for Nato membership, have issued discreet warnings about an anti-western backlash in their countries if the enlargement process is delayed.

On one hand, a tour of former Warsaw Pact capitals by Mr Javier Solana, the Nato secretary-general, has fuelled hope that by early 1997 the alliance will lay out a detailed programme for absorbing new members.

On the other, the central Europeans are again detecting nervousness in some western quarters about the effect enlargement will have on ties with Rus-

sia, which is firmly opposed to the idea.

While Mr Solana was careful not to name countries or timetables, officials in Warsaw, Budapest and other ex-communist capitals were left with the impression that Nato was already working to a rough game plan.

Under this scenario the winner of the US presidential election will invite the leaders of Nato's 15 other member states to a summit next spring. The summit would settle the "who and when" of expansion, with first admissions by the year 2000.

Competition to be included in the first wave of enlargement will be intense. "Our voters would find it hard to understand if we were left out," said one Hungarian diplomat.

But there are still influential figures in western Europe who see no reason why Nato should be in a hurry to incur the damage to relations with Russia

that expansion is bound to bring.

Mr Hans van den Broek, the European Union's external relations commissioner, is understood to have told officials in Washington last week that he saw "no evident urgency" in the proposal to enlarge Nato.

He also argued that the "wider context" - or, in plain language, ties with Russia - should be taken into account when setting a timetable. He added that there should be some correlation between the enlargement of Nato and the EU.

The commissioner believes that the EU is unlikely to accept any new members before 2002 at the earliest, so his proposal would imply a considerable slowing of the pace of Nato expansion.

The US State Department also says the two institutions should enlarge at roughly the same pace, but on US lips

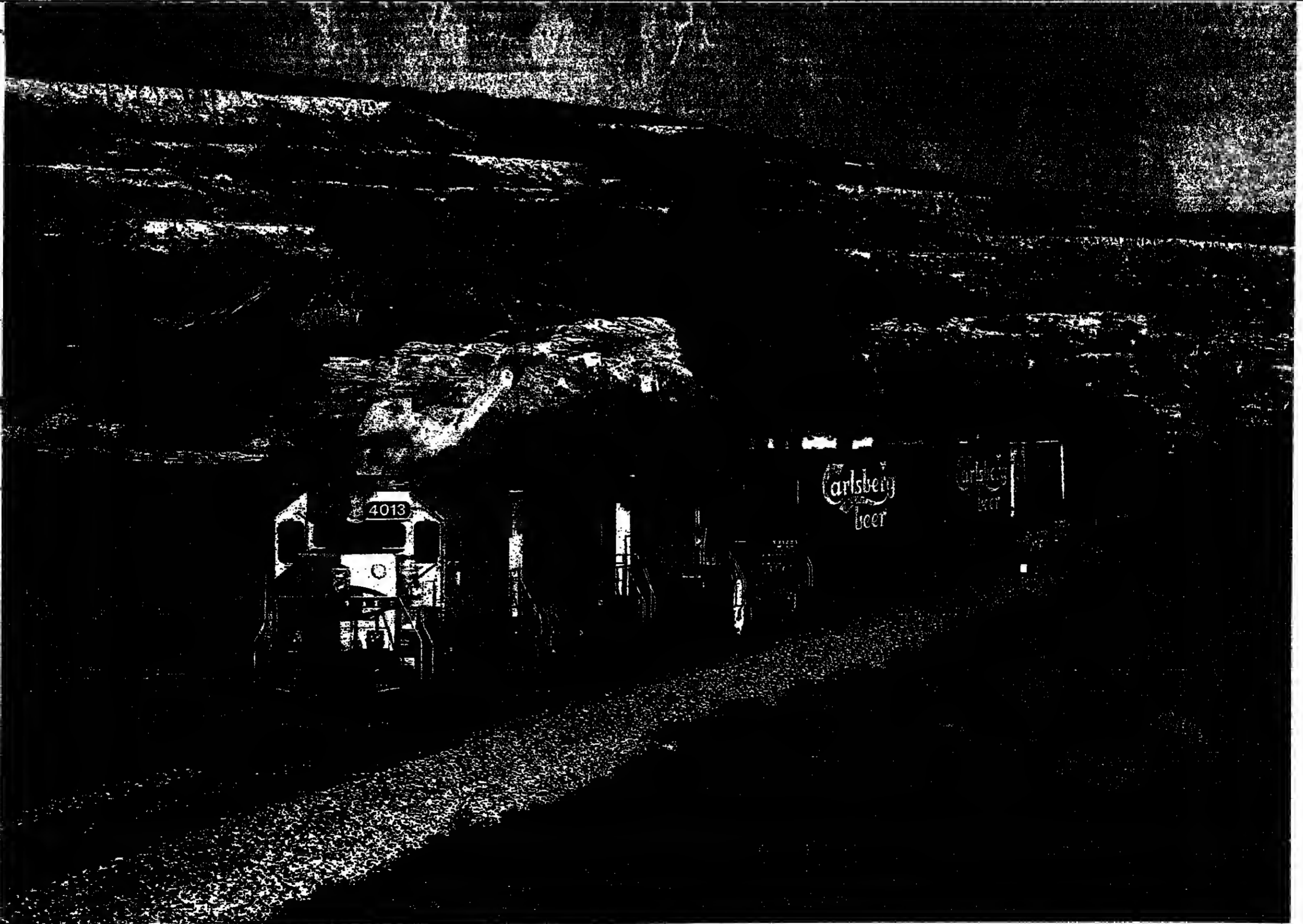
this formula has a different meaning: it amounts to a plea for the EU to avoid letting its own enlargement lag behind the brisk pace of Nato expansion.

In Germany, support for early Nato expansion has always been strongest in the defence ministry, while the foreign ministry - without opposing expansion - puts more emphasis on the need to maintain Russia's confidence.

Nato's southern members, and smaller countries such as Belgium, have often grumbled in private that expansion could dilute their relative weight in the alliance.

But in practice such doubts will probably be suppressed if the US takes a firm lead. In the disarming words of an Italian official: "We do not think Nato should enlarge against Russia's wishes. But it depends on Clinton, not on us."

Bruce Clark



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NEWS: INTERNATIONAL

Buthelezi fails to achieve go-ahead for KwaZulu/Natal poll Pretoria postpones election

By Roger Matthews in Cape Town

The South African government agreed yesterday to postpone local elections in the troubled province of KwaZulu/Natal for the second time, after a tense cabinet meeting that lasted for over five hours.

Chief Mangosuthu Buthelezi, the leader of the mainly Zulu Inkatha Freedom party, argued strongly for the elections to go ahead as scheduled on May 29. He said later: "I hope the elections will have a calming effect. I hope it will not unleash forces that we cannot control."

Chief Buthelezi had earlier threatened to walk out of the government of national unity, in which he serves as home affairs minister, if the elections were again put off as demanded by provincial lead-

ers of the ruling African National Congress. But he said last night that the "unanimous" cabinet decision to put off voting until the end of June would strengthen his party's position.

Mr Chris Fismen, the minister for provincial affairs and constitutional development, said the postponement was designed to improve the atmosphere in the province and enhance the legitimacy of the elections, originally scheduled for November 1 last year. The likelihood of a further delay increased at the weekend after three policemen and a civilian were injured when shooting broke out during an Inkatha rally in central Durban.

Ministers and political leaders yesterday shuffled between the cabinet meeting and the constitutional assembly where, after 18 months of negotia-

tions, the parties were still struggling to reach agreement on the text of the new constitution just 36 hours before it must be put to the vote.

The ANC has gone ahead and printed its version of the final text, despite continued disagreements over three of its clauses. A two-thirds majority of the constitutional assembly is required for the constitution to be adopted, which forces the ANC to attract 18 votes from the minority parties.

If no last-minute bargains are struck, and the ANC fails to achieve a two-thirds majority, the draft constitution will be submitted to a panel of seven experts who will have 30 days to suggest possible compromises. Should that also fail to resolve the deadlock, the draft constitution will be put to a national referendum.

Political leaders are aware of

the potential political damage that further delays will cause, and the risk of increased pressure on the rand. The currency has lost 18 per cent of its value against the dollar since mid-February and it weakened again yesterday.

The three issues blocking agreement on the new constitution are the right of employers to lock out workers during a strike; property rights; and the role of language in education. The ANC believes it has answered trade union demands that employers should not be given the constitutional right to impose a lock out, as demanded by the National party. This has been achieved by inserting an "interpretation" of the bill of rights which says provisions in the labour relations act, including the lockout, will remain in force until amended or repealed.

Mexican power plant wins go-ahead

By Daniel Dombey in Mexico City

One of Mexico's most important infrastructure projects is set to get off the ground after years of delays. Construction on the \$647 million Samalayuca II combined cycle thermo-electric plant, for which a concession was granted in 1992, should begin in the next few weeks.

The 700MW plant, in the northern state of Chihuahua, will initially be fuelled by natural gas from Texas.

The project, which will be Mexico's first privately financed power plant, was stalled for years despite legal reforms in 1992 which formally opened up the Mexican electricity sector to private capital.

The final project documents were signed last week.

Particularly troublesome were thought to be the workings of the project's build-lease-transfer framework, which establishes that the plant will be run by the country's Federal Electricity Commission, which will acquire ownership 20 years after operations begin.

The project has become especially important because of the government's plans to attract nearly \$80m in investment in the power sector up to the year 2000. "The conclusion of the Samalayuca financing is key for the credibility of the process [of electric liberalisation] and also for creating a model to be used in future," said Dr Hector Olea, president of Mexico's Energy Regulatory Commission.

Progress on Samalayuca may bode well for other long-delayed projects, a 440MW plant known as Merida III, the cost of which the government has estimated at \$900m. The Merida III concession should be granted in March 1997.

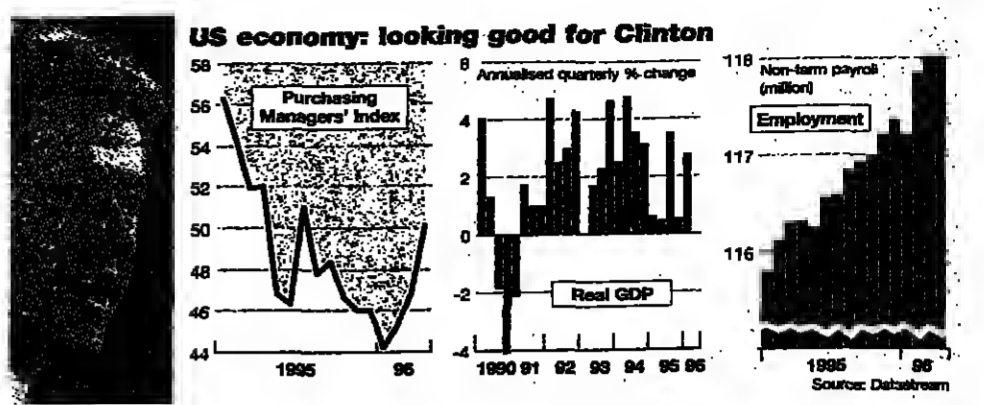
Despite Samalayuca's status as a big private sector initiative, a significant portion of the financing is coming from non-private sources.

The members of the consortium building the plant, including divisions of General Electric and Bechtel Enterprises and the El Paso Energy Corporation - all of the US - and Empresas ICA, Mexico's largest construction company, will provide \$132m in equity financing, with GE Capital of the US responsible for 40 per cent of the total.

But although a group of banks led by Citibank of the US will provide \$440m of debt financing, the money will be replaced after construction in 36 months' time with a loan from Exim Bank of the US.

Faster US growth spurs both cheer and alarm

Politicians, Wall St at odds, writes Michael Prowse



Signs of faster economic growth in the US are provoking very different responses among investors and politicians.

Earlier this year, the White House feared a stagnant economy might damage President Bill Clinton's re-election chances. Republicans sounded all too credibly when they referred grimly to a "Clinton crunch" caused by tax increases imposed in 1993.

Mr Clinton, it was implied, might suffer the same fate as Mr George Bush, whose 1992 campaign was torpedoed by the perceived weakness of the economy.

But last week jubilant Clinton administration officials scrambled to claim credit for:

- The highest level of consumer confidence in six years and a related recovery in the Purchasing Managers' Index, signalling an expansion of manufacturing production.
- Real economic growth in the first quarter at an annualised rate of 2.3 per cent, about twice as fast as expected and up sharply from 0.5 per cent at the end of last year.
- A fall in the unemployment rate to 5.4 per cent, matching the lowest level in the past 18 months and close to most economists' definition of "full employment".

On Wall Street the growth figures created a four month boom and sent the yield on the benchmark 30-year Treasury bond soaring above 7 per cent for the first time in nearly a year.

Yields on shorter-dated securities rose even more sharply, reflecting investors' fears that the Federal Reserve would be forced to raise short-term interest rates in the near future - if not later this month, then at its policy meeting in July.

The fragility of bonds has not yet caused a meltdown in the stock market. But it has created an uneasy mood; share prices are now moving sideways, having climbed rapidly for more than a year.

Bonds are taking a hammering because of the violence of

the change in financial expectations.

A few months ago, traders were seriously weighing the risks of recession. They had every reason to expect the Fed to cut short-term rates to about 4.5 per cent by late summer against 5.35 per cent today, a move that might have allowed long bond yields to drop below 6 per cent.

The hasty re-writing of economic scenarios has inevitably fuelled fear of inflation, which was huddling up anyway because of recent sharp increases in the price of oil, grain and other commodities.

In Washington such worries are seen as greatly overstated.

The White House Council of Economic Advisers argues that the increases in oil and grain prices will be short-lived because they reflect temporary distortions.

Grain prices have soared because of the drought in the Midwest, but the impact on consumer prices will be modest because cattle herds will be slaughtered, reducing meat prices. An unusually long and cold winter, meanwhile, has put short-term pressure on oil stocks, most evident in soaring petrol prices.

Administration economists also emphasise that the economic rebound, while welcome, is so far comparatively modest. Growth at an annualised rate of 2.3 per cent should not be seen as threatening after a stagnant fourth quarter. Gross domestic product is only 1.8 per cent higher than in the first quarter of last year.

The composition of growth is encouraging, the strongest element was a surge in business equipment investment which grew at an annualised rate of 14.5 per cent in the first quarter. If investment stays strong, industrial capacity will rise, reducing potential inflationary pressures.

And although the jobless rate fell sharply last month, non-farm payroll employment (which is generally seen as the more important indicator of labour market conditions) rose

Israel pressed on UN shelling

By Julian Ozanne in Jerusalem

Israeli and Palestinian negotiators wound up inaugural talks on a permanent peace settlement yesterday as Israel brushed aside mounting accusations that it was killing civilians would be killed when it bombed a United Nations compound in Lebanon last month.

In the Egyptian Red Sea resort of Taba, Israel and the Palestine Liberation Organisation said in a joint communiqué: "The two sides reaffirmed their determination to put an end to decades of confrontation and to live in peaceful coexistence, mutual dignity and security."

Both sides said that negotiations on a permanent peace agreement would be long and tortuous involving questions that have been at the heart of

the Middle East conflict for almost a century. The issues include control over Jerusalem, Palestinian statehood, final borders and the right of return of hundreds of thousands of Palestinian refugees.

However, Israel and the PLO said yesterday they were still committed to reaching a final agreement within three years based on UN Security Council resolutions calling for Israeli territorial compromise in return for peace.

The successful conclusion of the first round of final status talks will boost the campaign of Mr Shimon Peres, the Israeli prime minister, who faces tough elections later this month on a platform of making peace with Arabs.

But the growing row over Israel's possible disregard for civilian life in its 17-day bom-

bardment of Lebanon last month will harm Mr Peres' credibility. Israel is under pressure to answer charges that it knew innocent Lebanese civilians, mostly women and children, were taking shelter in the UN base which it shelled, killing 102 people.

The UN has demanded that Israel answer the allegations. An army committee of inquiry has said Israel had no idea that civilians were using the UN base as a safe haven.

The army said it did not intend to shell the UN base and that the direct hits were a result of miscalculations as Israeli gunners sought to halt mortar and rocket fire by pro-Iranian guerrillas near the base.

Israel has also denied UN allegations that it had a spy aircraft in the area. However, a

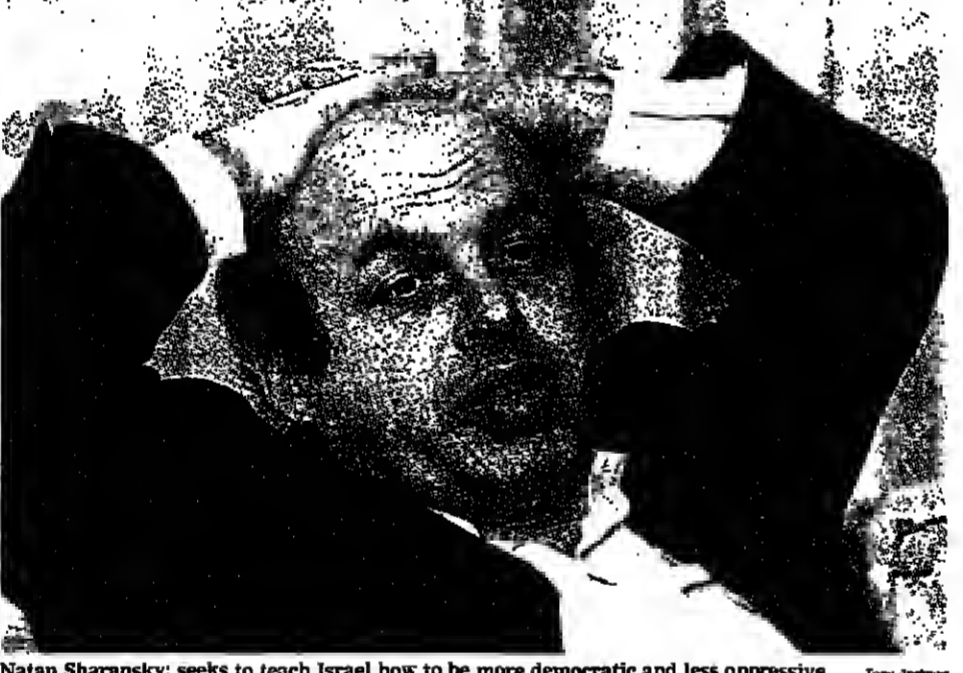
leaked UN amateur video, which is part of an investigation into the incident by Mr Boutros Boutros Ghali, UN secretary general, has shown a pilotless spy aircraft known as a drone near the UN base before the artillery bombardment. This has embarrassed the government.

Mr Peres yesterday denied Israel had lied when it said previously that it did not have a drone above the base. "No. This is a totally unfounded story," he said. "There was a drone in the vicinity but not above the place. And the fact that someone with a camera on the land has taken a picture of the drone doesn't mean that the drone was overhead and could have seen anything."

However, the UN renewed its allegations that Israel had not been honest about the attack.

Sharansky aims at balance of power for Russian immigrants

Votes for the former Jewish dissident could damage Peres, reports Julian Ozanne



Natan Sharansky: seeks to teach Israel how to be more democratic and less oppressive

Mr Natan Sharansky, a world-famous symbol of Soviet Jewish dissidence, was once the self-proclaimed king of the Russian Gulag. Now he hopes to emerge as the kingmaker of Israeli politics in the country's elections later this month.

Polls suggest Mr Sharansky's new Yisrael Ba'Aliya party, which represents the interests of about 650,000 new "Russian" immigrants who have arrived in Israel from the former Soviet Union since 1988, is likely to win six seats in the elections on May 29. This would be sufficient to give him the balance of power in Israel's next parliament.

If so, Mr Sharansky promises to teach Israel how to be a more democratic, liberal and less oppressive society, and to launch a crusade for a new Zionism.

"We are against the idea of Israel becoming a post-Zionist society and we are against the paternalistic Zionism and the melting-pot ideas of the old political parties," Mr Sharansky said yesterday.

He said: "We are for a new Zionism which will put new immigrants and more immigration at the centre and which will build a state capable of attracting more Jews and fully using their potential, their spiritual and mental riches which came out of the long struggle to survive."

But if Russians vote heavily for Mr Sharansky it could damage the electoral chances of Prime Minister Shimon Peres' Labour party, which won the overwhelming majority of Russian support in the previous elections in 1992.

A strong Russian party would redraw Israel's complex coalition political map. With Mr Sharansky more closely identified with the rightwing opposition to the peace process it could also endanger the fragile parliamentary coalition which has, sometimes with only a one-vote majority, just kept alive the Labour party's drive for Middle East peace.

The Russian vote has emerged as a critical force in the forthcoming elections. According to the voters' register the 450,000 new Russian immigrants who have signed up to take part in the poll comprise about 11.5 per cent of the 3.9m electorate or the equivalent of 13-14 seats in the 120

member Knesset. In 1992 the Russians, disillusioned with the previous Likud government's failures, voted by a large majority for Labour, helping it to regain power for the first time since 1977.

But, despite the efforts and resources devoted by the Labour-led government to absorb the new immigrants, Russian frustration remains high. Mr Sharansky, who previously spurned national politics, has built his party as the vehicle for discontent.

A poll published in yesterday's Yediot Ahronot daily newspaper showed 38 per cent of Russians backed Mr Sharansky's party compared with 24

ence, technology and engineering. Many are still struggling to establish a decent standard of living in an increasingly wealthy Israel.

Furthermore more than half of Russian immigrants say in polls that Israel absorbs them with indifference or hostility. They believe they are more closely identified by native Israelis with the Russian mafia, prostitutes and pimps than with the phenomenal economic contribution they have made to the country.

Mr Sharansky has mobilised this discontent into a powerful political force saying that Israel has failed to make absorption of new immigrants,

United States absorbing the entire population of France over a five year period," said Ms Deborah Lipson, an Israeli who has been active in Russian absorption for several years.

"No Russian is starving and none are homeless but for many Russians there are real reasons to gripe. Employment is of prime importance to Russian Jews because they define their social status by their professional status."

Israel's new system of direct election of the prime minister has also allowed an ethnically based political party to emerge. Mr Sharansky has told his supporters to follow their conscience in the two-man race for the premiership, where the issue will be overwhelmingly the peace process, and split their ticket to vote for his party for parliament.

Fortunately for Mr Peres 50 per cent of Russians support the Labour leader compared to 40 per cent who back rightwing challenger Mr Benjamin Netanyahu. But the Russian vote will take away seats from Labour in the parliamentary poll. At best the Labour party is expected to win 45-46 seats, leaving it 16-17 seats short of a parliamentary majority, assuming Mr Peres wins the race for the premiership as currently predicted by the polls.

So even if Mr Peres wins the premiership election he will be forced to strike a bargain with Mr Sharansky as the Russians take over the role of power-broker in coalition-forming which has been traditionally held by the ultra-orthodox parties. And Mr Sharansky, who makes further peace moves with Arabs conditional on greater democratisation of Arab regimes, is likely to strike a hard bargain.

per cent who said they would vote for the rightwing opposition and 31 per cent who support the Labour party.

Compounding the desertion of Labour by the Russians is the failure of the party to promote Russian parliamentary candidates in recent primary elections. Labour reserved one slot on its electoral list for a new immigrant but an Ethiopian won the position and Labour subsequently was forced to add Ms Sofia Landver, a Russian activist, to the list in an extraordinary vote by the party's central council.

The new immigrants are articulate and highly educated and, although just 10 per cent of them are unemployed, only a third are working in their traditional professions of sci-

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

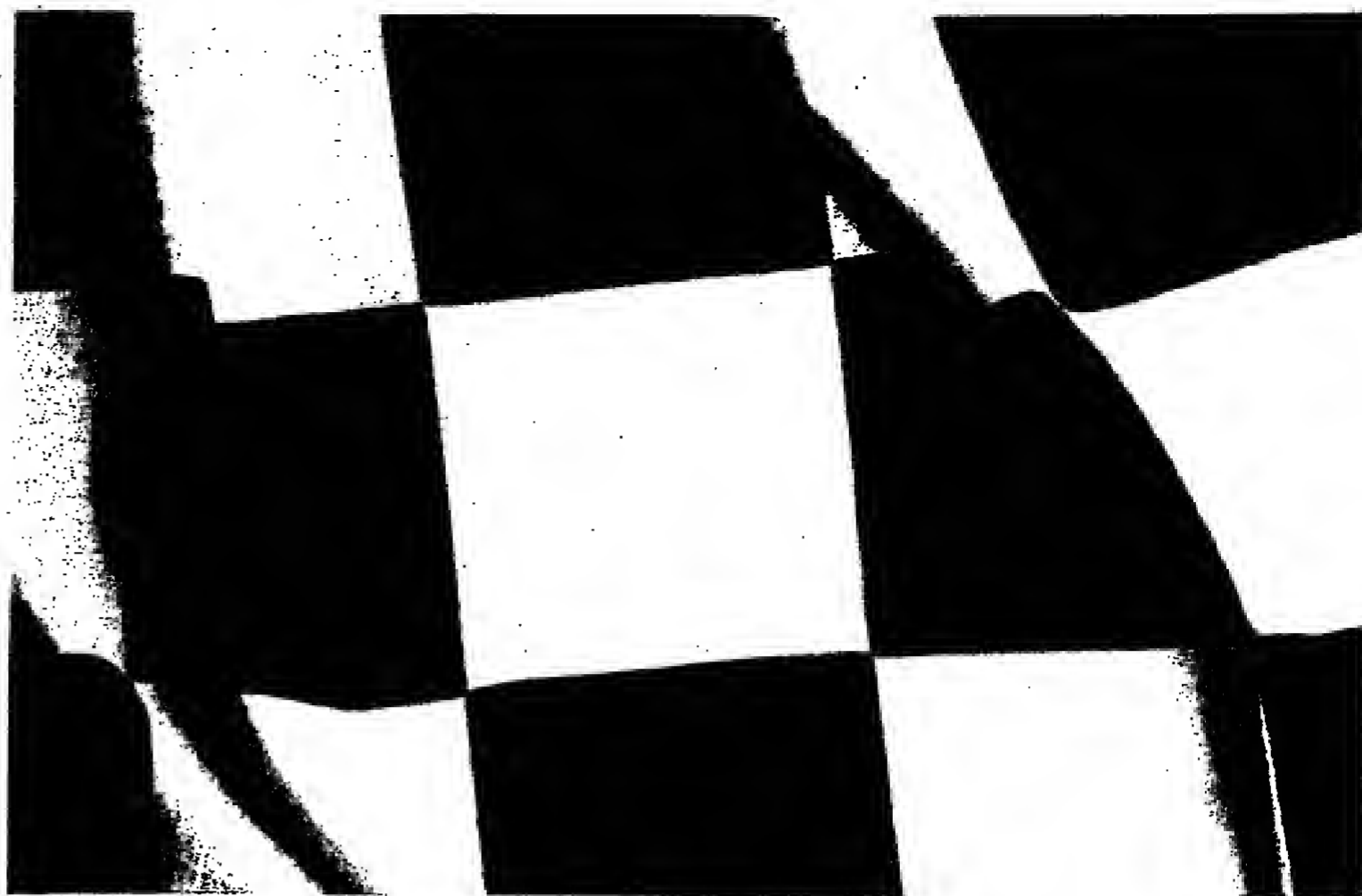
Year	UNITED STATES					JAPAN					GERMANY				
	Narrow Money	Broad Money	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money	Broad Money	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money	Broad Money	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	13.5	8.1	6.40	7.57	3.43	6.9	8.2	3.12	3.35	0.24	5.9	7.3	4.64	5.90	1.79
1987	11.8	6.5	6.82	8.39	3.12	10.5	11.5	4.15	4.24	0.55	8.0	7.3	4.03	4.71	2.21
1988	4.2	5.4	7.65	8.84	3.61	8.4	10.4	4.43	4.77	0.54	9.8	6.4	4.34	4.46	2.61
1989	1.0	4.2	6.99	8.50	3.43	4.1	10.6	5.31	5.16	0.48	6.3	5.7	7.12	8.90	2.22
1990	3.6	5.5	8.06	8.55	3.60	2.6	8.6	7.62	6.90	0.65	4.2	4.5	6.49	8.66	2.11
1991	6.0	3.7	5.87	7.86	3.21	5.2	2.0	7.21	6.40	0.75	5.1	5.6	6.29	8.32	2.38
1992	12.4	2.0	3.75	7.00	2.95	4.5	-0.4	4.28	5.24	1.00	7.1	8.2	9.52	7.86	2.45
1993	11.6	1.2	3.22	5.86	2.78	3.0	1.4	2.83	4.18	0.87	8.4	7.9	7.28	8.47	2.11
1994	6.2	1.4	4.67	7.12	2.86	8.4	2.9	2.12	4.20	0.76	6.8	6.2	6.32	6.86	1.77
1995	-0.3	2.1	5.93	6.67	2.61	8.2	3.2	1.12	3.38	0.96	3.7	-0.0	4.53	6.82	0.70
2nd qtr-1995	0.2	1.1	6.03	6.80	2.68	6.1	3.3	1.23	3.27	0.93	2.8	-1.1	4.60	6.27	0.20
3rd qtr-1995	-0.6	3.0	5.79	6.32	2.53	8.6	2.8	1.09	3.06	0.88	3.2	-0.7	4.41	6.88	1.58
4th qtr-1995	-1.8	4.0	5.73	5.89	2.38	12.9	3.2	0.43	2.88	0.81	4.9	1.3	4.01	6.32	3.02
1st qtr-1996	-2.4	5.1	5.30	5.99	2.21	15.8	3.0	0.49	3.16	0.76	9.5	5.4	3.45	6.17	1.88
May 1995	0.2	0.3	6.05	8.38	2.98	5.9	3.3	1.24	3.35	0.91	3.7	-1.3	4.56	6.85	2.10
June	-0.1	2.1	5.94	8.16	2.91	7.0	2.5	1.09	2.95	0.86	2.0	-0.7	4.58	6.70	2.01
July	-0.5	2.4	5.80	8.26	2.55	7.2	2.9	0.80	2.91	0.91	2.6	-1.2	4.58	6.70	2.01
August	-0.5	3.1	5.82	8.50	2.55	8.6	2.9	0.71	3.25	0.85	3.4	-0.8	4.48	6.71	1.97
September	-0.9	3.5	5.89	8.19	2.48	8.9	2.8	0.46	2.97	0.82	3.5	-0.1	4.19	6.58	1.96
October	-1.5	3.7	5.91	8.03	2.48	12.1	2.8	0.41	2.89	0.83	4.0	0.4	4.09	6.52	1.97
November	-1.7	3.9	5.74	8.33	2.42	13.9	3.4	0.44	2.88	0.83	4.4	1.0	4.01	6.32	1.94
December	-2.1	4.3	5.63	8.71	2.24	12.8	3.2	0.42	2.86	0.77	6.3	2.5	3.94	6.07	1.97
January 1996	-2.6	4.6	5.42	8.64	2.26	14.7	3.1	0.45	3.10	0.75	8.2	3.7	3.82	5.96	1.88
February	-2.7	5.0	5.15	8.81	2.17	15.7	2.8	0.50	3.19	0.75	9.7	5.9	3.35	5.18	1.88
March	-2.0	5.8	5.31	8.26	2.19	18.4	3.0	0.51	3.18	0.77	10.6	6.7	3.36	5.44	1.81
April			5.38	6.50	2.20			0.49	3.23	0.71			3.33	5.39	1.88

Year	FRANCE					ITALY					UNITED KINGDOM				
	Narrow Money	Broad Money	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money	Broad Money	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money	Broad Money	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	8.9	6.4	7.79	8.36	2.65	10.5	8.4	10.26	11.47	1.41	4.0	15.4	11.02	10.21	4.35
1987	4.1	11.5	8.63	9.46	2.75	10.4	8.8	11.32	10.98	1.41	4.7	15.2	9.77	9.75	4.48
1988	3.9	8.3	7.94	9.08	3.09	7.8	8.5	11.24	10.54	2.71	6.8	17.3	10.41	8.62	4.48
1989	7.5	10.0	8.40	8.79	2.89	7.1	8.3	12.42	11.81	2.45	5.9	17.6	13.96	10.11	4.36
1990	3.8	8.3	10.32	9.32	3.19	-8.3	10.1	11.98	11.97	2.84	5.3	16.1	14.82	11.56	5.07
1991	-4.9	2.4	8.82	8.03	3.38	7.3	8.5	11.83	13.20	3.45	5.4	8.0	15.9	10.08	4.97
1992	-0.2	5.4	10.26	8.57	3.55	8.7	7.7	13.89	13.29	3.63	2.4	5.1	9.74	9.08	4.91
1993	1.6	-2.2	8.35	6.75	3.21	4.1	8.1	12.22	11.23	2.35	4.8	3.5	9.99	7.40	4.01
1994	2.7	0.6	6.84	7.21	2.59	8.6	5.1	9.46	10.56	1.67	8.4	4.9	5.57	6.01	3.94
1995	8.8	4.8	6.90	7.33	3.17	0.6	0.6	10.38	12.22	1.72	6.0	7.2	6.77	8.16	4.15
2nd qtr-1995	1.3	3.1	7.47	7.59	3.10	-0.0	-0.4	10.89	12.71	1.76	5.9	6.2	6.76	8.19	4.21
3rd qtr-1995	3.3	3.9	8.12	7.35	3.11	0.0	0.6	10.52	11.79	1.64	5.8	6.2	6.87	8.09	4.08
4th qtr-1995	8.8	4.0	8.14	7.10	3.25	0.9	2.1	10.00	11.59	1.77	5.5	8.3	8.71	7.77	4.04
1st qtr-1996			4.47	6.65	3.10			9.88	10.57	1.74	5.8	10.1	6.2		

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NEWS: ASIA-PACIFIC

Five-year plan sees current account deficit transformed into surplus by 2000 Malaysia forecasts slower growth

By James Kynge in Kuala Lumpur

Malaysia yesterday unveiled its seventh five-year plan, which forecasts a slight easing in economic growth and an eradication of a worrisome current account deficit.

main new motors, with its contribution to GDP growth rising from 28.7 per cent in the last five-year period to 41.3 per cent in the next term.

cast the current account deficit, which rose from M\$11bn in 1994 to M\$17.8bn (\$7.14bn) last year, would turn into a surplus by 2000.

and education to bring down the deficit's big services component. Government spending on development is to increase 38 per cent from the previous five-year programme to M\$162.5bn.

private and state entrepreneurs on how the government hopes they will act. The chief minister of Kedah state, prime minister Mahathir Mohamad's home state, has resigned, the Malaysian premier said yesterday, ending months of speculation over the minister's position.

Thailand's PM poised to thrive on adversity

No-confidence debate's only victims will be troublesome ministers



Banharn Silpa-archa: more confident on political stage

Political sparks will fly in Thailand tomorrow as the opposition launches a three-day debate of no-confidence against the government of prime minister Banharn Silpa-archa.

Chart Thai party, "those ministers targeted are going to be questioned on personal matters, not issues of policy". Unlike former prime minister Chuan Leekpai, whose refusal to dump his tainted ministers partly led to his downfall, the politically ruthless Mr Banharn has said ministers must defend themselves.

Sheer numbers are on Mr Banharn's side. Defection by the two most disgruntled members of the coalition - the Palang Dharma and Nam Thai parties - would not be enough to force the government's collapse, as together they hold only 41 seats.

A third possible defector, the New Aspiration party, has not yet consolidated its strength enough to contest a general election, which it hopes would propel its leader, General Chavalit Yongchaiyudh, the politically ambitious defence minister, to the prime minister's office.

Seasoned politicians, along with some businessmen and high-ranking bureaucrats, also say they like working with the Chart Thai party more than

Ted Bardacke and William Barnes

Charting course for technology age

James Kynge on problems facing planners trying to increase productivity

Abdul, a young man from Bangladesh managing a petrol pump, laughs when he says that the best thing about Malaysia is that "you can make a fortune here".



Mahathir Mohamad

But to government planners trying to lead this nation up the technology ladder and into the developed world, the young pump attendant symbolises Malaysia's most intractable economic problem. In its seventh five-year plan, unveiled yesterday, the government made it clear that if a developing Malaysia was to compete successfully in the global economy, it had to upgrade its technology and boost labour productivity.

omy. The result may be to jeopardise a central plank in the five-year plan, which predicts that gains in productivity will contribute 41 per cent of gross domestic product growth over the next five years, up from 28.7 per cent during the last period.

Table titled 'Malaysian economy: on target' comparing 5th and 7th plan targets for GDP growth, inflation, GNP, unemployment, and current account surplus/deficit.

Source: Malaysia government

casting agency which drew up the plan. "Education will be developed as an export industry," the plan says, noting that foreign universities have already been invited to establish branch campuses in Malaysia.

detrimental effects and fuelled annual wage rises which some put at about 12 per cent. "But," the manager said, "these are just the problems of success."

The government is keen, however, to prevent a surge in imports of consumer goods as part of a strategy to turn the country's worsening current account deficit into surplus by the year 2000.

Officials said administrative measures to limit imports were not planned but they acknowledged the local industry would be encouraged to manufacture import substitutes.

Economists say the garage's predicament is common to many areas of Malaysia's econ-

omy. The result may be to jeopardise a central plank in the five-year plan, which predicts that gains in productivity will contribute 41 per cent of gross domestic product growth over the next five years, up from 28.7 per cent during the last period.

One manager of a high-tech foreign company said the problem of his engineers being lured away by competitors for higher salaries was his single biggest headache. For the wider economy, too, it has had

increase on the previous five-year period. Roads, railways and airports are to be built from the allocation.

But, notes Mr Pongpol Adireksarn, chief whip of the core

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FINANCIAL TIMES
COMPANIES & MARKETS
Tuesday May 7 1996

LEGAL DEFINITIONS
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3 location of specialist EU and competition law practice. see ROWE & MANN LLP (0171-2484282)
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LAWYERS FOR BUSINESS

IN BRIEF
DnB posts strong first quarter

Den norske Bank, Norway's biggest financial services group, posted first-quarter pre-tax profits of Nkr769m (\$119m), compared with Nkr559m last time. Increased lending volumes, falling costs and an improvement in the bank's bad loan portfolio all contributed. Page 16

Static results for Hafslund
Hafslund Nycomed, the Norwegian pharmaceuticals and energy group which is due to demerge later this month, yesterday reported unchanged first-quarter profits at Nkr456m (\$69m), well below the near Nkr500m expected by analysts. Page 16

Algy Cluff returns to mining
Mr Algy Cluff (left) has launched a mining company to concentrate on mining, exploration and development in Africa just four months after his Cluff Resources group was taken over by Ashanti Goldfields of Ghana for \$20m (\$120m). Cluff Mining is being financed privately by Mr Cluff, who collected about \$1.5m for his Cluff Resources shares. CM has already been appointed manager of Sominké - Société Minière et Industrielle du Kivu - which produces tin and tantalite and owns gold deposits in eastern Zaire. Page 16

Bertusconi to gain from Mediolanum float
Mr Silvio Bertusconi and Mr Emilio Doris, joint owners of Mediolanum, Italy's sixth-largest life assurance company, stand to earn at least £1.20bn (\$77m) each from the group's flotation in Milan this month. Page 18

CME mulls change to S&P future
Has the stock market rally of 1996 left the benchmark Standard & Poor's 500 index futures too big to trade? That is a question the Chicago Mercantile Exchange has been wrestling with for the past month as it considers the future of its S&P 500 index derivatives contracts. Page 21

New World Infrastructure convertible
New World Infrastructure, the infrastructure arm spun off from New World Development last October, is considering a \$200m five-year convertible bond issue to fund existing and potential projects. Page 21

Moulinex falls 10% in Paris
Moulinex, the French household appliances group, which appointed a new chairman in February following a shareholder move to replace top management, fell 10% to FF78.30 in Paris. Brokers Cheuvreux de Virieux remained "very negative". It estimates the restructuring of the group would cost FF500m-FF710m (\$97m-\$104m). Page 32

Farwell to mutualise
Within the next 18 months more than half the UK's biggest building societies look likely to have walked away from mutual status towards banking. The first will be the sale of National & Provincial to Abbey National this summer. Page 16

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Chief price changes yesterday

FRANKFURT (DM)		Clear Firm	25	-	1.0
ASX 200	882	Int'l Crp	48	-	3.0
ASX 50	219.5	PARIS (FFF)			
ASX 100	933	15			
ASX 200	715	10			
ASX 300	505	15			
ASX 400	105	7			
ASX 500					
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ASX 4600					
ASX 4700					
ASX 4800					
ASX 4900					
ASX 5000					

Midlands accepts GPU cash offer

Deal values rec at about £1.7bn as US rival is reportedly considering counter bid

By Patrick Harverson in London

Midlands Electricity will announce today that it has accepted an all-cash bid from General Public Utilities of New Jersey that is likely to value the regional electricity company at more than £1.7bn.

GPU, which will acquire Midlands in partnership with its fellow US utility Cinergy of Cincinnati, approached the company less than two weeks ago after the government unexpectedly blocked the acquisition of Midlands by PowerGen, the UK generating group.

Talks between the US bidders and Midlands started in earnest last week and the final details of the deal were thrashed out over the weekend.

Stock market analysts had predicted that GPU might offer more than 450p a share for Midlands, but the final price is likely to be lower than that, at somewhere between 430p-440p a share.

That would still be well ahead of the 371p a share Midlands agreed to accept from PowerGen last year before the deal was blocked by Mr Ian Lang, the trade and industry secretary, on the grounds that it would hinder competition in the generating market.

Although at least one other US utility - believed to be Houston Industries - was reportedly considering making a counter offer, investment bankers advising Midlands were last night playing down the likelihood that an all-out bid battle would develop for the company.

The acquisition of Midlands by GPU will give the US group a firm foothold in the UK electricity industry alongside its domestic rivals Southern Company and CSW, which acquired regional electricity companies (reCs) of their own in the first wave of consolidation that broke over the sector last year.

GPU is acquiring Midlands in partnership with Cinergy because of US regulatory restrictions on overseas investment and the limits of its own size.

The group, which owns three utility companies operating in New Jersey and Pennsylvania, has a market capitalisation of about \$2.7bn and last year made after-tax profits of \$382.5m on revenues of \$2.8bn.

The purchase of Midlands is expected to be the first of several takeover bids for UK reCs by foreign - particularly US - utilities. At the moment, only five companies remain independent other than Midlands: Northern, Yorkshire, London, East Midlands and Southern.

Eurotunnel banks may outline plan by Friday to refinance

By William Lewis in London and David Owen in Paris

French shareholders were yesterday preparing to unveil their own refinancing proposals for Eurotunnel as it emerged that the first phase of talks between the Channel tunnel operator and its banks was likely to be completed by Friday.

The early stages of the negotiations will involve the banks, who are owed \$2.4bn (\$1.7bn) by Eurotunnel, outlining their proposals for the company's financial reconstruction to Sir Alastair Morton and Mr Patrick Ponsolle, the co-chairmen.

Final agreement on the refinancing is widely seen as being some way off, not least because several of the banks are critical of the refinancing programme being put to Eurotunnel.

The outline refinancing plan has been agreed by the six lenders in the steering group which is running the negotiations on behalf of Eurotunnel's bankers. The main plank of the proposals is a large debt-for-equity swap which could leave the banks owning nearly half the equity in the company.

The proposals were presented to the instructing banks, the next layer of 20 lenders, in Paris on Friday. Eurotunnel is yet to be formally notified of the proposals, although advisers said this was likely to happen tomorrow.

Any restructuring has to be agreed by all 225 banks and a majority of shareholders. Adacte, the French shareholders' group, has said it may begin a compensation action in the French courts against the banks for losses on shareholders' investments.

Two shareholder groups will tomorrow travel from Paris to Calais on a special train and release a 12-page booklet setting out an alternative refinancing plan, which would include the write-off of some debts.

Mr Michael Hart, manager of the Foreign & Colonial Investment Trust, one of the few institutional shareholders in Eurotunnel, said yesterday that Eurotunnel's argument that it should pay a lower level of interest on its debt "seems a reasonable view". Mr Hart was "hoping that some equity could be retained".

Separately, the company is set to ask the UK and French governments to extend its tunnel franchise to 99 years.

Lucas and Varsity explore closer ties

By Peter Pearce in London and Richard Tomkine in New York

Lucas Industries, the automotive and aerospace equipment company, said yesterday it was in talks with Varsity Corporation of the US "to explore a potential strategic combination of businesses".

It is thought the talks could herald a full-scale merger, worth about £2.85bn (\$4.3bn) between the two groups. This would come as motor manufacturers demand that suppliers become global and produce total systems rather than components.

Mr George Simpson, currently Lucas chief executive but moving to GEC towards the end of the year, has stated that he is expected to see consolidation in the auto-components industry, to leave about 20 systems makers by 2004.

It is thought that even if talks for a merger could not be thrashed out, some collaboration is likely - either agreements for joint marketing, manufacturing, or a venture in braking systems.

In March Mr Simpson rejected the possibility of a merger with Valeo of France, where a 28 per cent stake was up for sale. He has said he would prefer a big deal in the US or Pacific Rim, though Lucas is not in a position to make big acquisitions.

The synergies between Lucas and Varsity look attractive. Both make automotive components and systems.

Lucas' automotive businesses account for about 80 per cent of the group's annual sales of about £3bn. The UK group is dominant in foundation brakes and mechanical braking systems, and is strong in Europe. Varsity's Kelsey-Hayes leads the world in anti-lock braking systems for rear-wheel-drive and four-wheel-drive vehicles, and is the highest brake systems manufacturer in the US. It sold \$1.4bn worth of brake systems last year, producing operating profits of \$111m.

It is also thought that Perkins, Varsity's UK-based diesel engines subsidiary, would fit well with Lucas' diesel operations. Dayton Walther, the US group's brake and wheel components business, and Zecol, its specialist electronics arm, would also complement Lucas' brake components and electrical and electronic arms.

Varsity, based in Buffalo, New York, is one of the biggest industrial companies in the US, but its chairman and chief executive, Mr Victor Price, 54, is British.

Varsity made net profits of \$125.5m last year on sales of \$2.4bn. Lucas first-half pre-tax profits rose 38 per cent to £61.6m.

Shares soar in Finnish maker of margarine that claims to cut cholesterol

Investors feast on a healthy spread

It costs six times as much as normal margarine and the chief executive of the company that makes it calls it "totally tasteless". Yet Benecol sells out virtually the moment it reaches the shops and international investors are scrambling to buy the shares.

The apparent contradiction is explained by one word: health. For Benecol claims cholesterol lowering properties which can sharply cut the risk of heart attacks. So popular has it proved that Raisio, the Finnish company which launched the product only six months ago, cannot meet demand even in Finland. But that has not stopped international investors beating a path to the small Finnish town after which the company is named to find out more.

"Benecol has enormous potential," says Mr Michael Finney, an analyst with Kleinwort Benson in London. "It's a very simple way to eat yourself fitter." His view is that if consumers in Finland are so keen on it, they will go crazy about it in health-obsessed countries such as the US.

It is the latest in a rising wave of "functional foods" launched by European manufacturers keen to find high margin products. They claim that new ingredients such as carefully selected bacteria or soluble fibre bring health benefits.

With large manufacturers jumping into the category, functional products could, in the long term, account for about 5 per cent of all food sales, according to a study by the Leatherhead Food Research Association, the UK institute. At that rate they would generate retail sales of about \$30bn a year in Europe and \$100bn worldwide.

Among the most successful products so far, Gaiyo yoghurt from MD Foods of Denmark and fruit drinks with soluble fibre from SmithKline Beecham of the UK also claim to lower cholesterol levels. Nestlé of Switzerland makes a more general claim for its LCI yoghurt. But brisk sales at premium prices of such products are nothing compared with the success of Benecol.

The hype over Benecol has brought a doubling of Raisio's



share price this year to FMI50 and a quadrupling of its international ownership to 40 per cent. It has also left a company unused to the international spotlight somewhat dazed by all the excitement. "We have been overwhelmed by the product's success," says one Raisio executive.

Clinical studies have shown that plant sterols can help block the amount of cholesterol absorbed during digestion. The trick has been to get enough of them into a product such as margarine to make a difference. Helped by research at Finnish universities, Raisio has developed a sterol derivative called sitosterol that reduces cholesterol absorption more effectively than unaltered sterol. While normal margarines contain 0.5 per cent plant sterol, Benecol contains 9 per cent.

The credibility breakthrough came with an article in the New England Journal of Medicine highlighting the results of a 14-month Benecol trial. This showed that daily consumption of 25 grams of Benecol - the amount spread on two pieces of toast - reduced total cholesterol in the bloodstream by 10 per cent. More importantly, it cut more harmful LDL cholesterol by 14 per cent. This could be enough to reduce the likelihood of a heart attack by a third, Raisio says all the group's promotional material has been run past the Finnish health authorities without objection.

Controversy is building in some European countries over how food makers verify health claims for functional foods and how they advertise them. The European Commission has attempted but failed over the past four years to institute guidelines.

Some anomalies have arisen. In the UK, MD can advertise Gaiyo's cholesterol reducing powers on

packaging and television having cleared them with broadcast authorities and trading standards officers. But a complaint from a watchdog group has prevented it running newspaper advertisements.

The efforts to tighten rules have been left to individual countries. The UK Ministry of Agriculture, for example, began six months ago to re-examine the issue.

The high price and strong health message to consumers make functional foods potentially one of the most lucrative sectors for producers. Benecol is the extreme example at FMI100 per kilo compared with a price for normal margarine of FMI16 or FMI17 per kilo. But this has not stopped sales soaring past the company's targets. It now anticipates first-year sales of up to FMI100m (\$21m) - against the FMI25m originally anticipated.

"The thing is, it will always be cheaper than medicines," says Mr Matti Salminen, Raisio's chief executive.

The company is coy about production levels and its broader ambitions. A potential bottleneck is its ability to get hold of sufficient sterol supplies. Until recently it has relied on a single source - a forestry mill in eastern Finland, which produces sterol as a by-product of pulp making. It says it has recently made progress in finding other suppliers.

The group is also moving rapidly to get patent protection. It has already secured patents in the US and Poland, and has applied for cover in most other industrial countries.

The key to the group's success will be its ability to expand beyond its domestic stronghold. An obvious possibility would be to seek a licensing agreement with a big multinational - Unilever has been rumoured as a potential partner - although the group is wary about ceding too much of Benecol to an outside company.

If Benecol is correctly marketed, Mr Finney at Kleinwort calculates it could capture 9.5 per cent of the developed world's spreading margarine market. He forecasts gross profits of more than FMI2.5bn in 2000.

However, as Raisio executives point out, sterol can be put into other products apart from margarine. "We've put it in a margarine for northern Europe, because this is a sandwich-eating area and that's a good way to deliver the required daily dose. But it could come in any form - in the US, it could be a chocolate bar," says Mr Salminen.

Christopher Brown-Humes and Roderick Oram

Huntsman stalks BP styrene business despite collapsed talks

By Jenny Luesby in London

Huntsman, the large privately-owned US chemicals company, is still stalking British Petroleum's styrene and polystyrene business, thought to be worth more than £200m (\$302m), after a sale agreement collapsed last year during price negotiations.

BP, which has been left behind in the styrene sector's sweeping consolidation, abandoned an earlier attempt to hive off the business for similar reasons.

On that occasion, in 1994, it announced a joint venture with Enichem of Italy. But while it wanted to own half the venture, its operation was far smaller than Enichem's and it was unwilling to inject any cash. After two years of talks, the venture was aborted.

Since then, BP's position in the

European market has been eroded as its competitors have restructured to improve their positions.

In styrene, the top five producers now account for 88 per cent of European sales, while BP produces just 3.2 per cent.

The company lags similarly in polystyrene, where the top five producers hold 71.5 per cent of the market, and BP accounts for 5.7 per cent.

Last year's planned sale would have lifted Huntsman's share of the European polystyrene market to 11 per cent, and given it a foothold in styrene, the raw material used to make polystyrene.

BP Chemicals produces 275,000 tonnes a year of styrene, at Baglan Bay in Wales, and 176,000 tonnes a year of polystyrene at Wingles, northern France.

Styrene and polystyrene are

not core activities for BP Chemicals, which specialises in polyethylene and acetyls, used in textiles, paints, plastics and food.

Huntsman has been keen to increase its European polystyrene business since acquiring an expandable polystyrene plant at Ribecourt, France, from Elf Atochem several years ago. It has a second polystyrene plant in Carrington, in the UK, but it has no European styrene production.

Following the breakdown of talks with BP, Huntsman announced an expansion at Ribecourt, and a doubling of capacity at its Carrington plant. It also agreed a styrene swap with BASF of Germany. From 1997, BASF will supply Huntsman with styrene in Europe, and Huntsman will supply BASF in the US. However, both Huntsman and BASF are keen to acquire more capacity.

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COMPANIES AND FINANCE

A fond farewell to mutuality

Alison Smith on the changing shape of UK building societies

Whether you call it a procession or a stampede, within the next 18 months more than half the biggest building societies look set to have walked away from mutual status towards banking.

The first of the impending deals - the sale of National & Provincial to Abbey National - will be concluded this summer.

But four announcements in little over three months this year - together with the looming prospect of Halifax coming to the market - has given the process a characteristically British element of queuing.

For each deal, there are some landmarks: the mailing to members of detailed information; members' vote on the issue, which would generally (though not inevitably) involve a special meeting as well as an opportunity to vote by post; approval of the procedure by the Building Societies Commission; and, finally, completion of the deal.

The timings set out in the attached table can only be approximate, and the dates of particular stages for each society could slip or be brought forward.

One broad point to come through in how long the process is taking for Halifax, the UK's largest mortgage lender, its original announcement that it planned to merge with Leeds Permanent, then the fifth largest society, and then convert to become a bank was made almost 18 months ago, in November 1994.

This stems partly from the complexities of the merger. Beyond the need to bring together two different organisations and product ranges, Halifax must establish a single customer register from the 10m savers and borrowers who were members of the two societies.

This "de-duplication" is unlikely to be completed much before the end of this year and will probably mean a combined base of 9m customers.

Another reason is sheer scale. Halifax will have an estimated market value of £10bn,

The move from mutuality



- Late September/Early October 96: transfer statement goes to 3m Alliance & Leicester savers and borrowers eligible to vote on conversion plan.
- Mid-December 96: special general meeting for AAL members to vote.
- Early January 97: transfer statement goes to the estimated 9m Halifax savers and borrowers eligible to vote on conversion plan.
- End January: transfer document goes to 1.1m Bristol & West savers and borrowers eligible to vote on planned £900m sale to Bank of Ireland.
- February: special general meeting for Halifax members to vote.
- February or March: transfer statement goes to an estimated 3.8m Woolwich savers and borrowers eligible to vote on conversion plan.
- Mid-February/beginning March: Transfer statement goes to 1m-plus Northern Rock savers and borrowers eligible to vote on conversion plan.
- Beginning of March: Bristol & West special general meeting to vote on planned sale.
- End March 97: latest expected date for completion of Building Societies Commission process of confirming the AAL deal.
- March/April: Woolwich special general meeting to vote on conversion, at or before its annual general meeting in April.
- Early/mid-April: special general meeting for Northern Rock members to vote on conversion, before the annual general meeting.
- End April 97: AAL floats.
- May: Latest expected date for completion of BSC process for confirming the Halifax conversion.
- By mid-June: Halifax floats.
- Late June: BSC should have completed process for confirming the B&W sale.
- End June/July: sale of B&W to Bank of Ireland completed.
- Mid-July: BSC should have completed process for confirming the Northern Rock conversion.
- Mid/late July: BSC should have completed confirmation hearing process for Woolwich.
- August or September: Woolwich floats.
- Beginning September/beginning October: Northern Rock floats.

and the flotation in which its savers and borrowers will be given free shares represents the single largest extension of share ownership in the UK.

The Halifax timing is beyond the need to bring together two different organisations and product ranges, Halifax must establish a single customer register from the 10m savers and borrowers who were members of the two societies. This "de-duplication" is unlikely to be completed much before the end of this year and will probably mean a combined base of 9m customers. Another reason is sheer scale. Halifax will have an estimated market value of £10bn,

Another striking feature is the close timing of the current plans of Woolwich, the third largest building society, and Northern Rock, the eighth largest.

At present, it looks as though Woolwich will float just before Northern Rock, but the smaller society's timescale includes a significant margin for slippage and it could overtake Woolwich.

This prospect would be heightened if Woolwich were unable to find quickly a new chief executive to replace Mr Peter Robinson, who was ousted last month.

The timings for all the deals, both the flotations and the takeover of Bristol & West by the Bank of Ireland, also highlight how long the regulatory

process of ceasing to be a building society can take.

The clearest example here is the Building Societies Commission advice to societies to allow three months for confirmation that the procedures have been followed properly.

It insists that this period is determined not by the pressure of deals, but by the amount of time that must be left for members to make representations if they wish.

Whatever the length of the process, it does bring a longer-term bonus for those that make it through to flotation: they will have swapped the turmoil and rumour of the mutual sector for the five years' protection from hostile takeover that former societies enjoy.

Hafslund profit static ahead of demerger vote

By Hugh Carnegie in Stockholm

Hafslund Nycomed, the Norwegian pharmaceuticals and energy group which is due to demerge later this month, yesterday failed to live up to market expectations when it reported unchanged first-quarter profits.

Just a week before shareholders will be asked to approve a split of the company into its two parts, Hafslund said pre-tax profits in the first three months were unchanged at Nkr456m (\$69m) and well below the near Nkr500m expected by analysts.

The pharmaceutical side suffered from lower prices for the group's world-leading diagnostic imaging products, while the energy side saw cuts in its hydro power production because of low rain and snowfalls in Norway.

Group turnover fell from Nkr2.44bn to Nkr2.36bn, leaving operating profits down from Nkr539m to Nkr470m. Lower research and development costs, down from Nkr235m to Nkr206m, and financial costs helped keep pre-tax profits at last year's level.

The main part of the Nycomed operations, Nycomed Imaging, which includes the injected liquids used to enhance X-ray diagnostic imag-

ing processes, was hit by price pressures, knocking sales down from Nkr1.27bn to Nkr1.33bn. Operating profits fell from Nkr607m to Nkr553m.

Low river levels in Norway curbed electricity production at Hafslund Energy, reducing sales from Nkr279m to Nkr257m and operating profits from Nkr166m to Nkr130m. Hafslund said low snowfalls over the winter meant big cuts in production in the coming months was also likely.

The results were a disappointing start to a period of big change for Hafslund Nycomed. The split to be voted on next week was first mooted when the Norwegian group last year agreed a merger with Ivax, the US pharmaceuticals company, only to have the plan voted down by key Norwegian institutional shareholders.

The company decided to go ahead with the internal split. Analysts say the effect will be to make Nycomed more exposed as a medium-sized pharmaceutical group with an attractive main product line and it could become a target in the industry's wave of consolidation. A group of eight Norwegian power companies, all owned by local authorities, have already made a Nkr1.1bn offer to buy the Hafslund energy operations and its distribution network.

DnB still enjoying record growth

By Hugh Carnegie

Norway's buoyant, oil-boasted economy helped Den norske Bank, the country's biggest financial services group, continue a two-year trend of record profits during the first quarter of the year.

Despite warning earlier this year the earnings surge could not be indefinitely sustained, DnB reported that pre-tax profits rose in the first three months from Nkr558m last time to Nkr783m (\$118.3m). Increased lending volumes - in contrast to still sluggish borrowing demand in neighbouring Sweden - falling costs and a further improvement in the bank's bad loan portfolio all helped lift earnings.

The bank also continued to benefit from a carry-forward of previous tax losses from the deep loan-loss crisis of the early 1990s. A tax charge of just Nkr6m left net profits at Nkr778m, up from Nkr565m in the same period last year. "The healthy results reflect

the positive trend favouring Norwegian companies and households and the general improvement in their financial position," said Mr Finn Hvistendahl, chief executive. Economic growth is expected to be slower this year than the 4 per cent achieved in 1995, but is still set to be firmly positive.

DnB is still 72 per cent owned by the state following the government buy-out of the banking system during the loan-loss crisis. The state is understood to be considering a further reduction in its stake to 51 per cent.

The bank did see a fall in its net interest income, from Nkr1.16bn to Nkr1.07bn, because of narrowing margins between lending and deposit rates. But it was compensated by increased volumes as total lending grew Nkr2.6bn to Nkr1.13bn. Other operating income also fell, from Nkr718m to Nkr699m. However, costs were cut from Nkr1.43bn to Nkr1.13bn.

NEWS DIGEST

Stronger krona hits Aga in first quarter

Pre-tax profit, excluding capital gains, at Aga, Sweden's speciality gas company, dropped 13 per cent to SKr526m (\$77m) in the first quarter of 1996 compared with the same period a year earlier. The group was hit by weaker trends in gas operations, partly due to a stronger Swedish krona. Sales declined to SKr3.32bn from SKr3.38bn last time. The profit drop, as well as the 4.7 per cent fall in group sales, mainly reflects the stronger krona. Adjusted for foreign exchange fluctuations, sales were up 3 per cent.

In the first quarter, Aga sold all of its stake in power company Gullspang Kraft, resulting in a capital gain of SKr1.8bn before taxes. Including that, first-quarter profit was SKr2.32bn. But core operations showed weaker trends. The group's operating profit tumbled 15 per cent to SKr457m.

Looking ahead, Aga said it expects full-year 1996 pre-tax profit, excluding capital gains, to be at roughly the same level as in 1995, or around SKr2.1bn. The profit drop reported by Aga was roughly in line with analysts' expectations. Core gas operations posted profits of SKr467m in the quarter, down from SKr500m. Investments in new plants amounted to SKr688m in the period, up from SKr463m.

AP-DJ, Stockholm

NeuroSearch plans global IPO

NeuroSearch, a Danish pharmaceuticals development company specialising in treatment of diseases of the central nervous system, plans a global public share offering this summer, which will be managed by Union Bank of Switzerland. Set up in 1989, the company concluded a collaborative development and licence agreement with Bristol-Myers Squibb last December for its most promising discovery to date, a compound for the treatment of Parkinson's disease.

The company has two other products which have been selected for clinical testing, one for treating anxiety and the other for treating brain damage following strokes. NeuroSearch made its first profit, of DKr4.5m (\$600,000) in 1995 when turnover was DKr5.4m.

Hilary Barnes, Copenhagen

Czech telecoms group down

Pre-tax profits at SPT Telecom, the Czech operator 27 per cent owned by PTT Telecom Netherlands and Swiss Telecom, fell nearly 20 per cent in 1996 because of a sharp rise in operating costs. SPT reported pre-tax profits of Kc70n (\$263.9m) compared with Kc8.70n in 1995. The 1994 figures were restated to reflect the consolidation last year of EuroTel, the mobile telephone joint venture in which SPT has a 51 per cent stake.

Revenues grew 16.7 per cent to Kc6.4m because of the addition of 348,000 new telephone lines, increasing telephone density per 100 people from 20.7 to 23.3. Profits after tax fell to Kc4.8bn from Kc5.2bn. SPT is not paying a dividend. Total assets jumped to Kc10.8bn from Kc5.2bn. Mr Urs Kamber, SPT chief financial officer, said call revenue rose 25 per cent to Kc16.6bn, while revenues from international traffic fell slightly, to Kc2.1bn, because of the impact of lower prices. The 40 per cent rise in operating costs to Kc18.5bn was mainly due to a near-doubling of depreciation charges as a result of SPT's accelerated network development, which is aimed at doubling the number of lines by the end of the decade.

Mr Kamber said SPT had almost completed arrangements for a \$500m syndicated loan, one of the biggest by a borrower from central Europe. The five-year multi-currency facility is priced at 25 basis points over Libor. The company's development programme is expected to cost nearly \$500 by the end of the decade.

Vincent Boland, Prague

FMC buys Frigoscandia unit

ASG, the Swedish transport group, is selling its Frigoscandia Equipment unit to FMC of the US for SKr1.25bn (\$18.3m). ASG said the deal would result in capital gains of SKr250m. FMC will acquire the shares in Frigoscandia Equipment for SKr1.1bn and take over Frigoscandia's net debt, for a total value of SKr1.25bn.

ASG bought Frigoscandia for SKr1.8bn in October 1985. It said at the time it did not intend to keep the equipment unit. The company said that the capital gain figure from the deal had not been included in an earlier profit forecast for 1996, which indicated profits would exceed the 1995 level of SKr191m. FMC, with headquarters in Chicago, Illinois, had turnover of \$4.5bn last year.

Reuter, Stockholm

Cluff in Zaire goldmining launch

By Kenneth Gooding, Mining Correspondent

Mr Algy Cluff has launched a new mining company just four months after his London-listed Cluff Resources group was taken over by Ashanti Goldfields of Ghana for \$20m.

Once again, Mr Cluff will concentrate on mining, exploration and development in Africa. At the age of 56, he says it is his fascination for Africa and its potential for huge gold deposits, rather than any need for money, that is

taking him back into the mining business.

His new company, Cluff Mining, has already been appointed manager of Sominki - Societe Miniere et Industrielle du Kivu - which produces tin and tantalite and owns four gold deposits in eastern Zaire. CM is negotiating to buy the government's stake in Sominki, which employs a workforce of about 5,000 and has 15 expatriates on its staff.

Zaire is one of the least-favoured African countries among mining groups. Mr

Cluff says: "They said I was crazy when I went gold mining in Zimbabwe 10 years ago. And again when I went mining in Ghana five years ago. No doubt they will now say I'm crazy to go mining in Zaire."

CM is being financed privately by Mr Cluff, who collected about £1.6m for his Cluff Resources shares, and several unnamed business associates. He stresses that CM will be a pan-African company and says it is at present negotiating for exploration licenses in countries other than Zaire.

Banro International Capital, a small Toronto quoted company, had an option on the gold deposits and will be CM's 50-50 partner in gold developments but not the other mining activities.

Mr Cluff has resigned from the board of Cluff Resources and says the parting with Ashanti was amicable. He has been appointed president of Sominki and remains, for the time being, chairman of Cluff Resources - Zimbabwe. He expects ultimately to float CM on a "friendly" stock exchange.

Kent Johansson is involved in the construction of the new SSAB special plate mill. To keep the mill rolling, very large high precision roller bearings are required. The order went to SKF after fierce competition with other bearing manufacturers.



Same old routine? -Not this time.

SMS/SCHLEMMANN SIEMAG AG, Germany, is one of the world's leading names in machinery for the metal working industry. Currently, SMS is constructing a new special plate mill for the Swedish steel company, SSAB, Oxelösund. Due for completion by 1998, it is designed to provide improved quality as well as greater opportunities for product and process development. To keep the work rails (and the project) running smoothly, SMS has chosen rolling bearings from SKF - bearings made in give high precision operation even under heavy load. These SKF bearings are enormous - each weighs as much as four average-sized cars, making them the world's largest in their class.

At SKF, we are always keen on new challenges. Breaking away from the old routine is an attractive proposition - and not only in bearing applications for the steel industry.

FIRST QUARTER 1996. SKF's consolidated income after financial income and expense: 811 million Swedish kronor (SEK M) compared with SEK 907 M for the first quarter 1995 and SEK 748 M for the final quarter of 1995. Group sales: SEK 8 881 M, compared with SEK 9 712 M for the first and SEK 8 523 M for the final quarter of 1995. Volume changes compared with the first and final quarters of 1995 amounted to -3 percent and +2 percent, respectively. Changes in exchange rates had a negative effect on sales - when translated to SEK - during the first quarter of 1996 of approximately 8 percent, or around SEK 700 M, compared with the first quarter of 1995.

Operating income, after depreciation: SEK 895 M (1 124). Financial income and expense - net: SEK -84 M (-217). The improvement was mainly due to forward contract transactions.

Earnings per share after tax: SEK 4.60 (5.05). Capital expenditures in property, plant and equipment: SEK 434 M (398). Number of employees: 43 678 (42 454). Group inventories amounted to 26.4 percent (25.2) of annual sales.

A new plant for the production of automotive Hub Units for cars and trucks will be built at Aiken, South Carolina, USA, together with a new Technical Center in Detroit. Production is scheduled to commence during spring 1997. Total investments in the U.S. amount to approximately SEK 900 M.

MARKET PROSPECTS: In a weak European market, there are few signs that demand will gain momentum, while the trend in the U.S. is somewhat better. The Asian market continues to grow and Latin America is showing signs of slow improvement.

AVERAGE RATE OF EXCHANGE 1996: 1 GBP = 10.25 SEK; 1995: 1 GBP = 11.66 SEK.

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COMPANIES AND FINANCE

Atlas Copco defies trend with 24% rise

By Hugh Carnegy
in Stockholm

Atlas Copco, the Swedish engineering group, defied a trend among big Swedish exporters of falling profits in the first quarter, posting a 24 per cent increase in pre-tax earnings to SKr603m (\$117.8m), compared with SKr497m at the same stage last year.

The result, which pushed up earnings per share from SKr2.23 to SKr2.84, was a welcome change for investors, and Atlas shares rose SKr3 on the day to close at SKr131.

The profits increase was in contrast to sometimes heavy falls in first-quarter profits from other Swedish engineering and forestry industry groups, such as Volvo, SKF and Sora, which have extensive exposure in Europe and North America and which offer a guide to broad market trends.

However, Atlas, a leading producer of compressors and drills which last year bought Milwaukee Electric Tool in the US for \$550m, cautioned that the improvement could not be attributed to a rise in demand

as underlying sales were little changed.

Instead, it warned that market conditions were "increasingly uncertain" and said it did not expect any pick-up in demand over the year. "We see that in our case the uncertainty has increased, not decreased, lately. Germany has not bottomed out as we had hoped and we are getting mixed signals from the US market," said Mr Hans Ola Meyer, head of finance.

Group sales did rise 7 per cent in the first quarter, from SKr6.69bn to SKr6.8bn, and

orders climbed 8 per cent to SKr6.66bn - despite the effects of a stronger Swedish krona which depressed the value of sales by 8 per cent. However, Atlas said when the effects of acquisitions were excluded, sales had decreased by 6 per cent and orders by 4 per cent.

It said sales of standard compressors and power tools had declined during the first quarter. Offsetting this, efforts by manufacturers and mining companies to achieve productivity improvements meant sales of large compressor units and drill rigs had increased.

Increases were mostly in Italy, Sweden and Japan, while orders from Germany, the UK and Brazil fell.

Operating profits rose from SKr612m to SKr769m.

Pre-tax profits were boosted by a one-time capital gain of SKr342m from the sale of a hydraulics unit - but were hit at the same time by a SKr225m charge from restructuring costs within Atlas's industrial technique division.

Mr Meyer said the underlying profits increase of SKr74m was chiefly due to productivity improvements.

Sales at GEA fall short of forecasts

By Michael Lindemann in Bonn

GEA, the leading German process technology group, yesterday reported lower than expected sales for 1995 and warned it did not expect significant increases in sales or profits this year because of stronger competition and a "restrained" economy.

Adjusted for a number of acquisitions, sales last year rose just 2 per cent to DM4.05bn (\$2.7bn), against the DM4.2bn GEA had forecast last year.

Group net profits rose 12 per cent to DM111m, from DM99m a year earlier, while new orders, also adjusted for acquisitions, remained stagnant, in part because "some clients had postponed some orders". Dividends will remain at DM10 for ordinary shares and DM11 for preferential stock.

Mr Otto Happel, the chief executive whose family still holds a majority stake in GEA, said the "top priority" this year would be to consolidate the existing operations. This would include measures to reduce the amount of manufacturing GEA does itself and focus instead on buying in more outside components.

The Bochum-based group has expanded strongly in the past two years and the 1995 results reflected the first-time consolidation of Westfalia Separator, the mechanical separation specialist, and Otto Tuchenhausen, the liquid processing business. Including such acquisitions, 1995 sales jumped 23 per cent.

However, Mr Happel said Otto Tuchenhausen had reported losses which were "significantly worse than expected" and that GEA's profits had been dragged down by restructuring costs at Otto Tuchenhausen and a number of other subsidiaries.

Mr Happel said net profits had also grown more slowly than the unadjusted 23 per cent rise in sales because of the strength of the D-Mark against the dollar and a number of European currencies.

GEA plans to reduce its 17,533-strong worldwide workforce by about 500 this year.

Turbulence prompts BWIA to change course

The Trinidad-based airline is reviewing its restructuring plans, reports Canute James

In the wake of the sacking of its chairman and the resignation of its chief executive after an unexpected loss last year, BWIA, the Trinidad-based airline, is reviewing plans to re-equip its fleet with Airbus aircraft.

The company will take delivery in July and November of two of the 12 aircraft originally ordered from Airbus, but is now likely to buy some aircraft from Boeing instead. It is also reconsidering the purchase of 10 commuter jets from Embraer of Brazil.

The airline, which was privatised a year ago when the government sold all but a 35 per cent stake, had planned to obtain nine Airbus A-321s and three A-340s over the next three years, replacing its current fleet of five Lockheed TriStar L-1011s and seven MD-80s. The A-321s are intended for BWIA's Caribbean, North and South American routes, while the A-340s are for routes between the Caribbean and Europe, including a daily flight to London.

A senior official of the government said privately that there was a reconsideration of the "commercial wisdom" of an all-Airbus fleet. It was likely that fewer aircraft than planned would be bought from Airbus, and that some Boeing 737s and 767s would be obtained.

The changes follow the sacking in February of Mr Edward Acker, the chairman, and the resignation three weeks later of Mr Edward Wegel, the chief

executive. The two men led the consortium which bought a controlling interest in the airline when it was privatised. Mr Acker is a former chief executive of Pan American, Eastern Airlines and Air Florida, all of which are defunct.

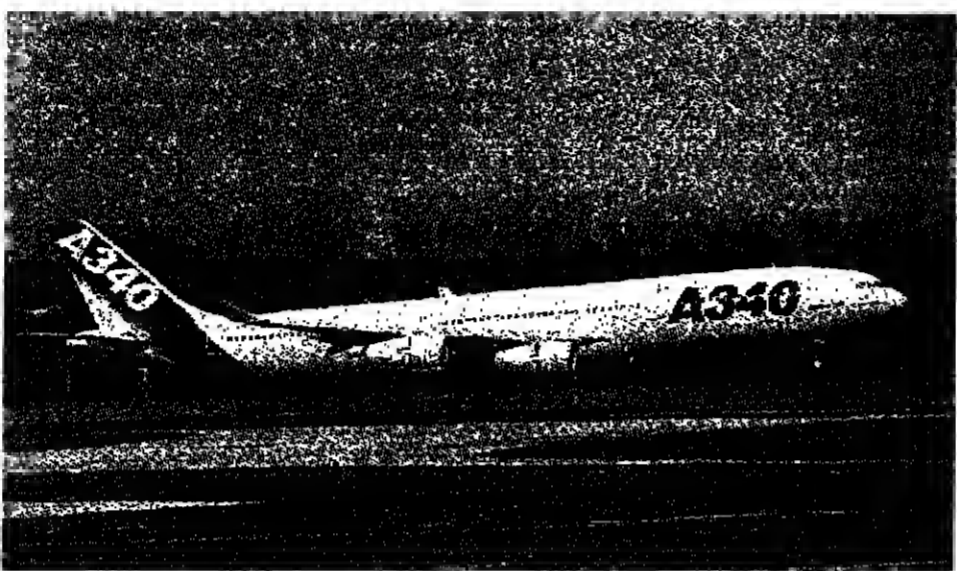
The government assumed the airline's accumulated losses of \$175m, and Mr Acker promised a net profit of \$10.5m in the first year. In the event, BWIA returned a loss of \$3.5m, with \$2.2m of this coming in the last quarter.

The airline, however, faces a hurdle in flying the new aircraft on routes to the US. In implementing the International Civil Aviation Organisation's safety regulations, the US Federal Aviation Administration has designated Trinidad and Tobago's civil aviation agency as "category two".

This prevents airlines based in the country from flying new aircraft and new routes to the US until the local civil aviation agency improves its operations and gains a "category one" rating.

The potential dangers for BWIA are shown in the problems encountered by Air Jamaica. Its plans for re-equipping its fleet with six A-321s and six A-330s have been hampered by the "category two" rating, which left some of its new aircraft idle and cost the company several million dollars.

Air Jamaica has been given special dispensation to fly its new aircraft on routes to the US, although the civil aviation



The Airbus 340: BWIA may look to Boeing for an alternative

agency has not yet met the requirements for upgrading its status.

"The authorities in Trinidad and Tobago are working diligently to upgrade the civil aviation agency," said Mr Michael Stanfield, BWIA's acting chief executive. "Our expectation is that we will be able to fly our new aircraft to the US. If not, then we will have to use them on other routes."

BWIA is also reviewing its plan to purchase 10 50-seater EMB-145 jets from Embraer of Brazil. The airline "has an option" on the Embraer aircraft, said Mr Stanfield. But government officials

said that the \$180m deal was "unlikely as conceived" and that any purchase from Embraer would be for fewer aircraft than was planned.

The company, however, is strengthening its presence in the regional commuter market through its purchase of a 29 per cent share in Leeward Islands Air Transport, a commuter airline which operates in the eastern Caribbean islands. The price of the transaction was not disclosed.

LIAT, based on Antigua, operates a fleet of nine de Havilland Dash-8s and six Twin Otters. It flies routes from Guyana in South America to Puerto Rico.

The turbulence which has hit BWIA's new management has left the government uneasy. "We are concerned about the level of management, and we are keen that the airline should be run on a basis which will make it a commercial success as was promised when it was privatised," said the government official. "We still own 35 per cent of the company, and it is in our interest to protect this investment."

Mr Stanfield expects BWIA to recover from last year's loss. "We are expecting, and we are planning on the basis that this will be a profitable year," he said.

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(formerly Goldstar Co., Ltd.)
(Incorporated in the Republic of Korea with limited liability)
To the Holders of the Issuer's US\$70,000,000 3.25 per cent
Convertible Bonds Due 2006
("the Bonds")

Notice to Bondholders of the modification of the
Terms and Conditions of the Bonds

NOTICE IS HEREBY GIVEN that LG Electronics Inc. ("the Company") has, pursuant to Condition 12(B) of the Bonds and with the agreement of Citicorp Trustee Company Limited, the Trustee for the Bondholders (the "Trustee"), amended the Terms and Conditions of the Bonds by a Supplemental Trust Deed dated 2 May, 1996, entered into by the Company and the Trustee. The following modifications to the Terms and Conditions of the Bonds have been made:

- To provide for an additional option for Bondholders to redeem their Bonds (the "1999 Put Option") exercisable on 24 June, 1999 at a price calculated in the method referred to below plus accrued interest to the date of redemption.
- To allow Bondholders who exercise their option to redeem their Bonds on 24 June 1996 (the "1996 Put Option") to subsequently revoke the notices of redemption by giving notice in writing to the Company or the specified office of any Paying Agent during its normal business hours on or before 7 June, 1996 and the Company will consent to any such revocation. The preceding sentence serves as the written consent, in advance, as required by the Supplemental Trust Deed for any such revocation.
- To prevent the Company from redeeming Bonds at its option on or before the date of the 1999 Put Option, being 24 June, 1999.
- To allow the Company to designate a purchaser in purchase such Bonds as are deposited for redemption by the Bondholders under the 1996 Put Option or the 1999 Put Option, at the price at which such Bonds are to be redeemed.
- The price at which the 1999 Put Option will be exercisable (the "1999 Put Price") will be calculated by the Company in accordance with the following formula:

$$P^* = (1+r)^{100P} \times \left(\frac{C}{(1+r)^{100}} + \frac{C}{(1+r)^{100}} + \dots + \frac{C}{(1+r)^{100}} \right) - SC$$

Where:-
 P* = 1999 Put Price (expressed as a percentage of principal amount of the Bonds and rounded off to three decimal places).
 P = 1996 Put Price (126.18% of the principal amount of the Bonds).
 C = Full Coupon.
 SCP = The number of days from the old put date to the next Coupon date.
 SC = Short Coupon to be paid at new put maturity (on June 24, 1999).
 r = (Y+1) to be calculated on an annualised basis in such manner so that it conforms to the definition of annual interest compounding as described in Rule 803-1 of the Rules and Recommendations of the International Securities Market Association (or any substitute or successor thereof) and expressed as a percentage.
 Y will be the fixed-rate which corresponds to the U.S. Dollar LIBOR rate plus 70 basis points.
 s = spread over yield on reference U.S. Treasury Note.
 Y = yield on reference U.S. Treasury Note.

The calculation will be performed by the Company using the relevant information as displayed on 17 June, 1996. The Company will inform the Principal Paying and Conversion Agent of the 1999 Put Price by no later than 18 June, 1996.

It is for Bondholders to decide whether the 1999 Put Price adequately compensates them for deciding not to exercise the 1996 Put Option.

All Bondholders contemplating taking any action in respect of the matters contained in this Notice should seek independent financial advice and, if in any doubt, should also seek independent financial advice.

NOTICE IS ALSO HEREBY GIVEN, in accordance with Condition 14 of the amended Trust Deed, that the purchaser designated by the Company, pursuant to Condition 7(E) of the amended Trust Deed as referred to in Clause 4 of this Notice, shall be LG Securities International Ltd.

Bondholders who have any questions concerning the matters referred to in this Notice should contact: B J Kim of L.G. Securities International Ltd which is regulated by the SFA and is representing the Company in connection with these matters. B J Kim can be contacted at LGSI Ltd., 5th Floor, Beckettbury House, 11 Wallbrook, London EC4N 8DY, tel: (44) 171 374 4812, (44) 171 489 1494, Fax: (44) 171 374 3850.

Copies of the Supplemental Trust Deed which implement the amendments are available at the specified offices of each of the Paying and Conversion Agents set out below.

Principal Paying and Conversion Agent Citibank, N.A. 336 Strand London WC2R 1HB	Paying and Conversion Agents Citibank (Luxembourg) S.A. 58 Boulevard Grand- Duché, Luxembourg L-1370 Luxembourg	Citibank (Switzerland) Bahnhofstrasse 83, CH-8001 Zurich
--	---	--

7 May, 1996 LG Electronics Inc.

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\$2,474,482,850

Travelers/Aetna Property Casualty Corp.
A Member of *TravelersGroup*

This announcement constitutes neither an offer to sell nor a solicitation of an offer to buy these securities. The offering is made only by the Prospectus Supplement and the related Prospectus, copies of which may be obtained in any State from such of the undersigned and others as may lawfully offer these securities in such State.

May 2, 1996

32,000,000 Trust Preferred Securities
Travelers P&C Capital I
8.08% Trust Preferred Securities

(Liquidation amount \$25 per Trust Preferred Security)
guaranteed to the extent set forth in the Prospectus Supplement by

Travelers/Aetna Property Casualty Corp.
A Member of *TravelersGroup*

Price \$25 per Preferred Security
(Plus accrued distributions, if any, from April 30, 1996)

- Smith Barney Inc.
- Dean Witter Reynolds Inc.
- Donaldson, Lufkin & Jenrette
Securities Corporation
- A.G. Edwards & Sons, Inc.
- Goldman, Sachs & Co.
- Lehman Brothers
- Merrill Lynch & Co.
- Morgan Stanley & Co.
- PaineWebber Incorporated
- Prudential Securities Incorporated
- Alex. Brown & Sons Incorporated
- Bear, Stearns & Co. Inc.
- CS First Boston
- Dain Bosworth Incorporated
- Dillon, Read & Co. Inc.
- Everen Securities, Inc.
- Oppenheimer & Co., Inc.
- Piper Jaffray Inc.
- Rauscher Pierce Refenes, Inc.
- Raymond, James & Associates, Inc.
- The Robinson-Humphrey Company, Inc.
- Salomon Brothers Inc.
- Adytec, Inc.
- J. C. Bradford & Co.
- JW Charles Securities, Inc.
- Commerzbank Capital Markets Corporation
- Cowen & Company
- Craigie Incorporated
- Crowell, Weedon & Co.
- Davenport & Co. of Virginia, Inc.
- Finnestock & Co., Inc.
- First Albany Corporation
- First of Michigan Corporation
- Furman Selz
- Gruntal & Co., Incorporated
- J. J. B. Hilliard, W. L. Lyons, Inc.
- Interstate/Johnson Lane Corporation
- Janney Montgomery Scott Inc.
- Josephthal Lyon & Ross Incorporated
- Kennedy, Cabot & Co.
- Legg Mason Wood Walker Incorporated
- McDonald & Company Securities, Inc.
- McGinn, Smith & Co., Inc.
- Morgan Keegan & Company, Inc.
- The Ohio Company
- Olde Discount Corporation
- Principal Financial Securities, Inc.
- Rodman & Renshaw, Inc.
- Scott & Springfellow, Inc.
- Muriel Siebert & Co., Inc.
- Stephens Inc.
- Sifel, Nicolaus & Company Incorporated
- Sutro & Co. Incorporated
- Tucker Anthony Incorporated
- U.S. Clearing Corp.
- Utendahl Capital Partners, L.P.
- Wedbush Morgan Securities
- Wheat First Butcher Singer
- Yamaichi International (America), Inc.

This announcement constitutes neither an offer to sell nor a solicitation of an offer to buy these securities. The offering is made only by the Prospectus Supplement and the related Prospectus, copies of which may be obtained in any State from such of the undersigned and others as may lawfully offer these securities in such State.

May 2, 1996

\$700,000,000

Travelers/Aetna Property Casualty Corp.
A Member of *TravelersGroup*

\$500,000,000 6¾% Notes due April 15, 2001
\$200,000,000 7¾% Notes due April 15, 2026

Price 100% per 5-Year Note
Price 99.649% per 30-Year Note
(Plus accrued interest, if any, from April 15, 1996 to the date of delivery)

- Smith Barney Inc.
- CS First Boston
- Donaldson, Lufkin & Jenrette
Securities Corporation
- Goldman, Sachs & Co.
- Lehman Brothers
- Merrill Lynch & Co.
- J.P. Morgan & Co.
- Morgan Stanley & Co.
- Salomon Brothers Inc.
- Chase Securities Inc.
- Citicorp Securities, Inc.
- UBS Securities LLC

This announcement constitutes neither an offer to sell nor a solicitation of an offer to buy these securities. The offering is made only by the Prospectus, copies of which may be obtained in any State from such of the undersigned and others as may lawfully offer these securities in such State.

May 2, 1996

38,979,314 Shares

Travelers/Aetna Property Casualty Corp.
A Member of *TravelersGroup*

Class A Common Stock

Price \$25 per Share

31,892,166 Shares

These Shares are initially being offered in the United States and Canada by the undersigned.

- Smith Barney Inc.
- CS First Boston
- Dean Witter Reynolds Inc.
- Goldman, Sachs & Co.
- Lehman Brothers
- J.P. Morgan & Co.
- Morgan Stanley & Co.
- Salomon Brothers Inc.
- Bear, Stearns & Co. Inc.
- Alex. Brown & Sons Incorporated
- Deutsche Morgan Grenfell
- Dillon, Read & Co. Inc.
- Donaldson, Lufkin & Jenrette Securities Corporation
- A.G. Edwards & Sons, Inc.
- First Manhattan Co.
- Lazard Frères & Co. LLC
- Merrill Lynch & Co.
- Oppenheimer & Co., Inc.
- PaineWebber Incorporated
- Prudential Securities Incorporated
- Schroder Wertheim & Co.
- Advest, Inc.
- Arnhold and S. Bleichroeder, Inc.
- Sanford C. Bernstein & Co., Inc.
- Brean Murray, Foster Securities Inc.
- The Chicago Corporation
- Conning & Company
- Dowling & Partners Securities, LLC
- Duff & Phelps Securities Co.
- First of Michigan Corporation
- Fox-Pitt, Kelton Inc.
- Furman Selz
- Janney Montgomery Scott Inc.
- Neuberger & Berman
- The Robinson-Humphrey Company, Inc.
- Muriel Siebert & Co., Inc.

7,087,148 Shares

These Shares are initially being offered in a concurrent international offering outside the United States and Canada by the undersigned.

- Smith Barney Inc.
- CS First Boston
- Dean Witter International Ltd.
- Goldman Sachs International
- Lehman Brothers
- J.P. Morgan Securities Ltd.
- Morgan Stanley & Co.
- Salomon Brothers International Limited
- ABN AMRO Hoare Govett
- Barclays de Zoete Wedd Limited
- Bayenische Landesbank Girozentrale
- Credit Lyonnais Securities
- Deutsche Morgan Grenfell
- Fox-Pitt, Kelton N.V.
- ING Barings
- Nomura International

The undersigned acted as lead manager in connection with the above offerings.

SMITH BARNEY INC.
A Member of *TravelersGroup*

COMPANIES AND FINANCE

Egypt to sell first majority stake in public company

By James Whittington in Cairo

The Egyptian government yesterday announced a landmark decision to sell the first majority stake in a public sector company to private investors through the Cairo stock exchange.

The decision was taken in response to heavy demand from foreign and local investors for an initial public offering in Nasr City Housing and Construction, the real estate company.

The offer, which opened on Sunday, was initially slated to sell 20 per cent of the company's share capital, with 10 per cent going to employees and the rest allocated according to demand from retail and institutional investors.

This was in line with the partial privatisation technique adopted by the government for the 17 other companies sold since its potentially large programme of divestiture began in 1994.

The government will now sell 70 per cent of the company's equity, or 2.9m shares, to the public, and 5 per cent, or 200,000 shares, to employees. Each share is priced at E265 and the offer will raise E2182m

(\$53.7m). Brokers in Cairo said the decision was a breakthrough. They, along with the International Monetary Fund and the World Bank, have been urging the government to sell majority stakes for the past 18 months.

Since Mr Kamel al-Ganzouri, the prime minister, took office at the beginning of this year, the government has promised to speed up Egypt's structural reforms, especially privatisation.

"This is the opening of a new era for Egypt's privatisation programme. We can now expect to see a lot more public companies passing into private ownership," said Mr Mohamed Taymour, chairman of Egyptian Financial Group, the local merchant bank, which is co-managing the offer. He said that despite the increase in the number of shares, the offer was expected to be covered more than two times by the close of trade today.

Nasr City has benefited over the past two years from a sharp rise in real estate prices. Net profits for the year to June 1995 were E236.53m on revenues of E285m. It has a large asset base, consisting of land and buildings, valued at more than E2.2bn.

Deregulation sparks Nordic merger frenzy

Sweden's generators jostle for pole position in the industry, reports Greg McIvor

The restructuring of the Nordic region's power industry has turned into a shark's feeding frenzy. Leading domestic and foreign operators have taken bites out of each other in the struggle to enhance market position.

Few could have anticipated the speed of rationalisation when Sweden on January 1 followed Norway and Finland in liberalising its power industry, creating the world's highest deregulated electricity market.

Analysts expected the consolidation would focus on Sweden's 250 or so distributors. Instead, the most frenetic activity has been focused on the country's generators. In the past month, sizeable holdings in several companies have changed hands at feverish pace. But some observers have raised doubts over the industrial merit of some deals.

"The ownership structure in Swedish power companies is in chaos. It is impossible to say what will finally emerge," says Dr Karl-Axel Edin, president of Tentum energy consultants in Stockholm. Like others, he has been surprised by the pace of change.

While big state-owned producers such as Sweden's Vattenfall, Imatran Voima (IVO) of Finland and Norway's Statkraft, have been manoeuvring to strengthen their grip on the Nordic sector - seeing it as a

springboard for future expansion into Baltic and mid-European markets - medium-sized operators have been scrambling to guarantee their survival.

Eight Swedish generators control 93 per cent of the domestic market, but only Vattenfall, with a 50 per cent market share, is seen as big enough to be assured of remaining a long-term independent player.

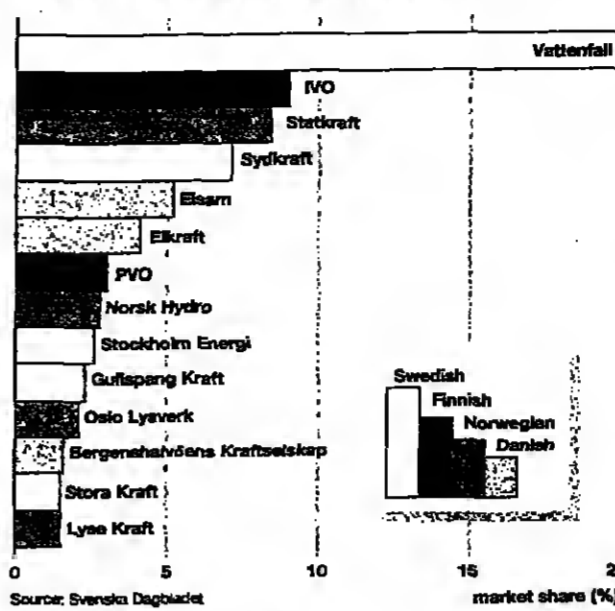
Many utilities are locally based, and their stand-alone prospects will depend heavily on their ability to grow sufficiently to develop at least a national presence.

The prospect of substantial economies of scale for generators, on top of rising electricity prices - partly because last winter was unusually cold - is feeding the thirst for acquisitions and strategic alliances.

"The bigger and more efficient companies eat the smaller ones. That is one reason why we want to be bigger and bigger," says Mr Jari Jaakkola, vice-president in charge of investor relations at IVO.

Last month, the Finnish company took a 51 per cent interest in Gullspång Kraft, the regional Swedish energy utility, and announced an alliance with Stockholm Energi, Sweden's third-largest generator. Gullspång Kraft has also

Nordic market's largest suppliers



Source: Svenska Dagbladet

been the subject of interest from Preussen Elektra of Germany, which purchased a 12 per cent holding. Sweden's sixth-biggest power supplier, Gräninge, has also bought a 14 per cent stake, and last week bought J&E Energi, a regional power distributor, for SKr566m (\$88m).

But Gräninge, whose move into Gullspång Kraft was motivated by a desire to collaborate with IVO, has in turn found itself targeted. Its share price has jumped almost 20 per cent in the past month after Electricité de France, the French state power utility, directly and indirectly secured a 54 per cent interest in the company after a battle for control with Sydkraft, Sweden's second-largest power genera-

tor. In addition, Preussen Elektra has bought a 12.4 per cent stake.

Amid the feverish mood currently pervading the sector, analysts have questioned the wisdom of some transactions. IVO's move into Sweden is seen as a logical step and a direct response to Vattenfall's entry into Finland last year. However, question marks have been raised over EDF's involvement in Gräninge, given the absence of a clear industrial link between the two companies. The French group has outlined few specific plans for Gräninge. It has said it sees the holding as a way of gaining experience of the unregulated power market.

Mr Per Axelsson, utilities specialist at Cap Gemini consultants in Stockholm, said Sweden and the Nordic countries were becoming a laboratory for continental power generators en route to future wider European deregulation. This would mirror the liberalisation of the Swedish telecommunications sector over the past five years, which spurred rapid foreign investment.

With EDF and Preussen Elektra already active in Scandinavian power companies, observers predict the sector will soon attract wider European interest. Named among possible entrants is Yorkshire Electricity, the UK generator, which

attempted to purchase a 20 per cent stake in Stockholm Energi in 1994 - a deal that foundered because of political opposition in Sweden.

A suitable opportunity may arise through Incentive, the Wallenberg investment company, which has stated its intention to relinquish ownership of Skandinaviska Elverk, another Swedish energy producer.

The deal, estimated to be worth between SKr2.5bn and SKr3.5bn, is expected to interest a host of competitors, among them IVO, Sydkraft, EDF and Gräninge.

Vattenfall has also expressed a desire to strengthen its balance sheet to fund expansion in the Baltic region. That would be most easily achieved by privatising a tranche of the state's 100 per cent holding, but the Social Democratic government has made clear that Vattenfall is not currently for sale.

Girded by a 50 per cent Swedish market share, Vattenfall is unaccustomed to being challenged on its domestic patch. Nevertheless, it has felt obliged to respond to IVO's incursion into Gullspång Kraft. It purchased a 13 per cent stake for close to SKr1.3bn - a stipote that underlined the determination of the biggest company not to be outrun in the restructuring race.

All of these securities having been sold, this announcement appears as a matter of record only.

May 1996

12,250,000 Shares

APT
AMERICAN PORTABLE TELECOM

Common Shares

2,450,000 Shares

The above shares were offered outside the United States by the undersigned.

Donaldson, Lufkin & Jenrette
Securities Corporation

Goldman Sachs International

Merrill Lynch International Limited

Salomon Brothers International Limited

SBC Warburg
A Division of Swiss Bank Corporation

Cazenove & Co. ABN AMRO Hoare Govett Credit Lyonnais Securities
ING Barings Paribas Capital Markets Société Générale

9,800,000 Shares

The above shares were offered in the United States by the undersigned.

Donaldson, Lufkin & Jenrette
Securities Corporation

Goldman, Sachs & Co.

Merrill Lynch & Co.


Salomon Brothers Inc

Bear, Stearns & Co. Inc.	Alex. Brown & Sons Incorporated	BT Securities Corporation	CS First Boston
Dean Witter Reynolds Inc.	Deutsche Morgan Grenfell	Dillon, Read & Co. Inc.	
A.G. Edwards & Sons, Inc.	Furman Selz	Gabelli & Company, Inc.	
Lazard Frères & Co. LLC	Lehman Brothers	Montgomery Securities	
Morgan Stanley & Co. Incorporated		Oppenheimer & Co., Inc.	
PaineWebber Incorporated		Prudential Securities Incorporated	
Schroder Wertheim & Co.	Smith Barney Inc.	SBC Capital Markets Inc.	
Wasserstein Perella Securities, Inc.		Robert W. Baird & Co. Incorporated	
William Blair & Company	The Chicago Corporation	Crowell, Weedon & Co.	
Everen Securities, Inc.	Fahnestock & Co. Inc.	First of Michigan Corporation	
Hoak Securities Corp.	Johnston, Lemon & Co. Incorporated	McDonald & Company Securities, Inc.	
Moran & Associates, Inc. Securities Brokerage		Needham & Company, Inc.	
Pennsylvania Merchant Group Ltd		Principal Financial Securities, Inc.	
Pryor, McClendon, Counts & Co., Inc.		Ragen MacKenzie Incorporated	
Raymond James & Associates, Inc.	The Robinson-Humphrey Company, Inc.		
Roney & Co.	Muriel Siebert & Co., Inc.	Sutro & Co. Incorporated	
Tucker Anthony Incorporated	Van Kasper & Company	Wheat First Butcher Singer	

All of these securities having been sold, this announcement appears as a matter of record only.

May 1996

7,200,000 Shares



Terra Nova (Bermuda) Holdings Ltd.

Class A Ordinary Shares

1,320,000 Shares

The above shares were offered outside the United States, Bermuda and Canada by the undersigned.

Donaldson, Lufkin & Jenrette
Securities Corporation

Merrill Lynch International Limited

J.P. Morgan Securities Ltd.

ABN AMRO Hoare Govett Cazenove & Co. Conning & Company
Deutsche Morgan Grenfell Fox-Pitt, Kelton NV
Paribas Capital Markets Société Générale

5,880,000 Shares

The above shares were offered in the United States, Bermuda and Canada by the undersigned.

Donaldson, Lufkin & Jenrette
Securities Corporation

Merrill Lynch & Co.

J.P. Morgan & Co.

Bear, Stearns & Co. Inc.	Alex. Brown & Sons Incorporated	Dean Witter Reynolds Inc.
Deutsche Morgan Grenfell	Dillon, Read & Co. Inc.	A.G. Edwards & Sons, Inc.
Goldman, Sachs & Co.	Lazard Frères & Co. LLC	Morgan Stanley & Co. Incorporated
Oppenheimer & Co., Inc.	Salomon Brothers Inc.	Smith Barney Inc.
Conning & Company	Dowling & Partners Securities, LLC	Fox-Pitt, Kelton Inc.
Janney, Montgomery Scott Inc.	Moors & Cabot, Inc.	Northington Capital Markets, Inc.
Advest, Inc.	Robert W. Baird & Co. Incorporated	William Blair & Company
First Bermuda Securities, Inc.		J. C. Bradford & Co.
First Manhattan Co.		Furman Selz
Interstate/Johnson Lane Corporation	McDonald & Company Securities, Inc.	Needham & Company, Inc.
Parker/Hunter Incorporated	Ragen MacKenzie Incorporated	Tucker Anthony Incorporated

135A

INTERNATIONAL CAPITAL MARKETS

CME considers change to S&P future

As the stock market rally of 1996 left the benchmark Standard & Poors 500 index futures too big to trade? That's a question the Chicago Mercantile Exchange has been wrestling with for the past month as it considers the future of its S&P 500 index derivatives contracts.

boosted the average daily price swing per contract to about \$4,000 - twice last year's levels. In comparison, a single US Treasury bond futures contract has an average daily price swing of about \$1,000.

over has doubled since 1987. During the period, the NYSE has seen a succession of stock splits, which has cut its average share price, increasing trading appeal to retail customers.

and increasing the amount of time it takes for an order to be filled. The high value of the contract has discouraged business in other ways. Institutional traders who use futures as protection against price swings in the cash market say a bigger contract becomes a less precise hedging instrument and leaves them exposed to broader daily price swings and greater risk.

angry customers. Halving the contract value may or may not increase the liquidity in the pit, but it certainly will double the amount of money owed in brokerage, clearing, and exchange fees for the same dollar amount traded, customers say.

The Chicago Mercantile Exchange is thinking about tinkering with its star index derivative product. Laurie Marsh explains why it is disappointed with volume growth and looks at the possible pitfalls of change

Stock index futures customers have always been big institutional players accustomed to the costs and risks associated with the market, so why is the CME thinking about tinkering with its star product now? For one thing, the exchange is uneasy that volume in its futures pit has not expanded in tandem with the New York Stock Exchange, where turn-

Treasuries stage recovery after sell-off last week

By Lisa Branstetter in New York and Samer Iskandar in London
US Treasury prices yesterday posted a modest rebound after last week's sharp sell-off but the yield on the benchmark 30-year Treasury remained above 7 per cent.

Also important this week will be Friday's figures on the Producer Price Index, which should offer the market some guidance about the prospects for an emergence of inflationary pressures later this year.

German bonds also ended higher after trading down on bearish economic data showing a fall in the German unemployment rate. However, the June bond future, listed on the FTSE in Frankfurt, closed at 95.90, up 0.10, helped by a firmer US Treasury market.

New World Infrastructure plans convertible

By Louise Lucas in Hong Kong
New World Infrastructure (NWI), the infrastructure arm spun off from New World Development last October, is considering a US\$250m five-year convertible bond issue to fund existing and potential projects.

the mooted bonds from the two main credit rating agencies. Standard & Poor's has rated the bonds BBB-, with a positive outlook, and Moody's Investors Service has indicated it would rate the bonds Baa1.

60.64 per cent. The company is also negotiating with other joint venture partners in the Wuhan Bridge Development project to increase its interest from 49.86 per cent to 63.86 per cent, at a price yet to be negotiated.

scheduled to be up and running between 1997 and 1998. Beyond these projects, NWI is scouting around for other opportunities and is negotiating on a number of power and road projects, as well as mulling over certain port projects.

share capital of the company. New World Development has previously looked to overseas markets to list paper, in 1993 it created a "mini" S&P 500 fund, which embraced a number of China infrastructure and property projects and was effectively a precursor of NWI.

First Euro-CP for Chinese agency

By Samer Iskandar
The China International Trust and Investment Corporation (Citic) has announced the creation of a \$100m euro-commercial paper programme, the first such financial arrangement by a Chinese governmental agency.

day in Beijing, said SBC Warburg, which has been chosen as the arranger and dealer in the securities to be issued under the programme. Citibank is the issuing and paying agent.

limited to a maximum of one year. Citic is a state-owned corporation and operates under the direct leadership of China's State Council.

Pakistan telecoms sale suffers further delay

By Farhan Bokhari in Islamabad
The privatisation of Pakistan Telecommunications Corporation (PTCL), the monopoly telephone company, may again be delayed until October. The Pakistani government said a postponement was being considered because of competition from three other telecoms companies due to be offered on the international markets this year.

The latest delay, the second since December, would almost certainly dampen investor confidence, some businessmen said yesterday. Ms Benazir Bhutto, the Prime Minister, said in Islamabad last week: "I think that in privatising PTCL we have to consider what other events are taking place in the global marketplace," adding that the company's privatisation plans had coincided with the planned sale of three other large telecom companies in different parts of the world.

Table with multiple columns: HIGH GRADE COPPER (COMEX), ENERGY, GRAINS AND OIL SEEDS, SOFTS, Precious Metals continued, COMMODITIES PRICES. Includes various market data and price movements.

U.S. \$250,000,000
Crédit Lyonnais
Subordinated Floating Rate Notes Due August 1997
Interest Rate: 5.75% per annum
Interest Period: 7th May 1996 to 7th August 1996
Interest Amount per U.S. \$100,000 Note due 7th August 1996: U.S. \$146.94

LKB Baden-Württemberg Finance N.V.
US\$1,000,000,000
Guaranteed floating rate notes due 1998
Notice is hereby given that the notes will bear interest at 5.475% per annum from 7 May 1996 to 7 November 1996.

EUROFIMA
European Company for the Financing of Railway Rolling Stock
ITL300,000,000,000
Floating Rate Note due 1998
Notice is hereby given that for the interest period 6 May 1996 to 5 August 1996 the notes will carry an interest rate of 8.675% per annum.

Three Month Interim Report 1996
THE SUCCESSFUL PUBLIC OFFERING OF SCANIA
GENERATES A STRONG APPRECIATION IN VALUE FOR THE SHAREHOLDERS
Investor's total annual return over the past 12-month period was 49.4 percent, compared with 33.2 percent for the Stockholm Stock Exchange.
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COMPANIES AND FINANCE: UK

Yorkshire head aims to clear muddied water

By Jane Martinson and Patrick Harverson

Mr Brandon Gough, the new chairman of Yorkshire Water, has launched a strategic review of the group's 000-core operations. He arrived last week at the utility, which endured a public relations nightmare last year over its management of water supplies during the UK's long summer drought.

He said management would be "open-minded" about making changes to its 000-core businesses and exploring ways to improve overall efficiency. He hopes to reverse some of the findings of the review - which will look at businesses including Yorkshire Environmental Services, various overseas ventures and its property interests - at the group's annual meeting in July.

"The objective of the review is primarily to ensure some clarity of purpose for Yorkshire Water and to make sure that whatever we do is done in a logical framework," he said. The 58-year-old Mr Gough, former chairman of accountants Coopers & Lybrand, has arrived at Yorkshire at a difficult time for the company.

A report on its handling of last year's water shortage crisis, for which it has already been criticised, is to be published on May 17. Sooner, Ofwat, the industry regulator, is to produce a separate report on the company's compliance with environmental regulation.

Mr Gough said he realised that the year ahead could be a challenging one. "It is going to take us a while to earn back the trust of the customers. They had a bit of a shock last year," he said. "The company had a run of bad luck with the water supply situation. Quite honestly, everybody's very anxious to make sure we don't have a repetition."

Mr Kevin Bood, the new chief executive, last week announced a £70m emergency package to combat water shortages and extended a hosepipe ban to Yorkshire's 4.5m customers. He also announced a separate review of the core utility.

With a new non-executive chairman, chief executive and finance director, the board "as a whole is very ambitious to wipe the slate clean," said Mr Gough. "It's a very difficult to run a business well if your customers are not outside."

Because Yorkshire is in a closed period before the publication of its results, he would not be drawn on whether that efficiency would include a share buy-back or special dividend next month. Part of his "mission" would be to find out what customers wanted.

Whatever the criticisms, he believed the private sector was best able to manage the problems of water supply. An additional £170m to secure the water supply announced last November would not have been possible if the company had still been in public hands.

Loyalty engenders just desserts

Christopher Brown-Humes on Sainsbury's fight to regain top slot

For a company used to supremacy in the UK supermarket sector, J Sainsbury will have the highly sobering experience of reporting its first fall in underlying profits for 22 years when it presents full-year figures on Wednesday.

The performance will not surprise the market, which has been forecasting pre-tax profits of £760m-£765m, after £369m in 1994-95, since the group issued a profit warning in January. But it will raise anew the question of what has gone awry and how the group is going to fight its way back to pre-eminence.

Evidence that Sainsbury has lost its way is contained in figures showing it achieved lower like-for-like sales growth than its rivals and has lost market share. Figures from AGB, the market consultants, showed Sainsbury's share of the British grocery market slipped from 21.7 per cent to 21.3 per cent during last year, while Tesco surged from 20.7 per cent to 22.4 per cent and both Asda and Argyl's Safeway recorded gains.

Part of the problem is that the group has not effectively countered the high-profile marketing initiatives of its rivals. Most glaringly, it has been caught off-guard by the loyalty card successes of Tesco and Safeway, and has so far failed to launch a variant of its own. But its competitors also seem to have gained a reputation for innovation and dynamism that Sainsbury lacks. Tesco and Safeway have both flaunted customer service initiatives, whether it be cutting check-out queues or introducing self-scanning and crèches. The result is that Sainsbury has been losing some of its core family shoppers.

underestimating the extent to which Tesco, Asda and Safeway have repositioned themselves to step up their competitive challenge. "The Sainsbury board has always found it very difficult to acknowledge their own weaknesses," says Mr Paul Smiddy, food analyst with Credit Lyonnais Laing.

The clearest sign of investor disillusion is that Sainsbury shares have underperformed the market by 23 per cent during the past year. But there is an argument that the group is a victim of its own success. In terms of sales per square foot, for instance, it still achieves more than £20, compared with Tesco's £18.36. Its operating profit margin is believed to have been maintained at 8.1 per cent in the second half of the year, against 5.73 per cent at Tesco.

It also has highly effective delivery systems, and an executive of a rival company concedes: "It's still the best brand in the business."

The group is moving to address its problems. Management was reshuffled in January, although many felt the move misfired because Mr Dino Adriano, who will play a central role in the fightback, is out due to take over as head of the UK supermarkets business until late next year.

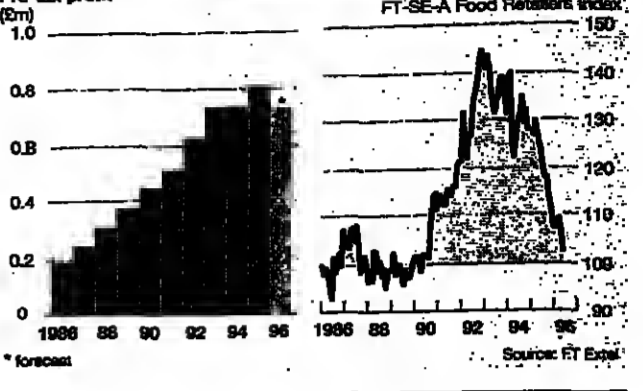
The group has also launched a series of price promotion campaigns since January which it says has helped it regain some market share. But analysts say unequivocally that more needs to be done. They maintain that Sainsbury will eventually have to launch its own loyalty card, albeit with a different concept to current variants. This will be a top priority for Mr Kevin McCarter, the new marketing supremo.

Specifics may not be forthcoming on Wednesday, but the city will be disappointed if it does not get at least some clues as to the way the company intends to meet the competitive challenges it faces.

J Sainsbury



David Sainsbury, chairman



Scholl appoints key marketing man

By David Blackwell

Scholl, the UK foot and healthcare products group that last October fought off an attempt by rebel shareholders to replace three non-executive directors, is expected to appoint a marketing director today.

He is Mr Trevor Bell, who has spent the last year as marketing director at Facia, the retail group assembled by entrepreneur Mr Stephen Hinchliffe from some of the UK's best-known brand names. Mr Bell's brief is to take firm control of Scholl's brand worldwide, including responsibility for all new product development.

His appointment is one of the final stages of the strategic review initiated 18 months ago when the board decided that the strength and direction of

the brand had become somewhat dissipated.

One of his first tasks will be to appoint an international marketing head for footwear, and another for footwear. He will also be key to driving forward the relaunch of the brand, which is under way.

Operating profits for 1995 were 23 per cent ahead at £18.2m (£14.8m) on a 10 per cent increase in sales to £207.2m. Mr Colin Brown, who took over as chief executive last September, said the outcome showed measures put in place to restructure the business were bearing fruit.

Mr Bell said he had completed his task of setting up a marketing structure at Facia, and his position would not be refilled. He had been attracted to Scholl by the international nature of its business - about three-quarters is overseas.

BET battle prompts Panel review call

By Geoff Dyer

The Takeover Panel is under pressure to launch a formal review of the rules surrounding exempt marketmakers as a result of the Rentokil-BET battle.

A number of institutional investors have complained to the Panel that the rules are open to abuse by marketmakers connected to one of the parties in a bid. The controversy was

prompted after the Panel turned down a complaint 10 days ago by BET's advisers that SBC Warburg, one of Rentokil's brokers, had breached the Takeover Code.

BET, acquired by rival business services group Rentokil last week for £2.1bn, had complained about the sale of 2.5 per cent of its shares on April 23 by the marketmaking arm of SBC Warburg.

Salomon Brothers bought the 27m shares and sold 34m

almost simultaneously through ABN Amro Hoare Govett, another Rentokil broker, to an associate company of the bidder.

BET argued that this broke Rule 38 of the code, which forbids a marketmaker connected with the target or bidder from making any dealings which might help its client's cause.

The Panel rejected BET's request that the shares be blocked from counting towards

acceptances of the Rentokil offer. However, one industry analyst described the share trading as "only just within the code".

City experts say that there are about 10 marketmakers which often run extremely large positions in a target company during a takeover battle. "In those circumstances you have to be very careful that those positions are not being run for the benefit of one of the parties," said one expert.

SPANISH NUCLEAR MORATORIUM
FONDO DE TITULIZACIÓN DE ACTIVOS
RESULTANTES DE LA MORATORIA NUCLEAR
AUCTION ANNOUNCEMENT

Under the provisions of article 10.2 of Royal Decree 2202/1995 of December 28, *Titulización de Activos, Sociedad Gestora de Fondos de Titulización S.A.* (the "Management Company"), in its capacity as the Management Company of the *Fondo de Titulización de Activos Resultantes de la Moratoria Nuclear* established under the Notary Public of Madrid Mr. Antonio Fernández Goffo on Monday, April 29, 1996 (the "Fund"), hereby announces that an auction for the selection of the providers of financing to the Fund will be held in accordance with the Auction Conditions deposited at the Registration Office, as stated in section 6 below. Without prejudice to the application of the Auction Conditions in their entirety, a summary of said Conditions is set out below:

- SUBJECT OF THE AUCTION**
 The subject of the Auction will be the following liabilities of the Fund, the Auction being divided into three independent Tranches (hereinafter "the Tranches of the Auction"):
 - 3,600 Securitization Bonds of 25,000,000 pesetas each, constituting Tranche 1 of the Auction (hereinafter "Tranche 1 of the Auction") for a total amount of 215,000,000,000 pesetas. Application will be made for the admission to trading of the Bonds on the *Mercado AIF de Renta Fija*.
 - Participations in *Lotus A*, having a total principal amount of 322,000,000,000 pesetas constituting Tranche 2 of the Auction (hereinafter "Tranche 2 of the Auction").
 - Participations in *Lotus B*, having a total principal amount of 178,000,000,000 pesetas constituting Tranche 3 of the Auction (hereinafter "Tranche 3 of the Auction").
 The Management Company may, until Tuesday, June 11, 1996, increase or reduce the final total amount of *Lotus B*, in an amount of up to 5%. If that amount is changed, the Management Company will make the precise final amount public by publishing an announcement in two newspapers of nationwide circulation and two financial newspapers of international circulation.
- AUCTION DOCUMENTS**
 The documents relevant to the auction (hereinafter "the Auction Documents") are the following: the Auction Conditions and this summary, the Prospectus of the Fund approved by the *Comisión Nacional del Mercado de Valores*, a transcription of the stipulations of the Deed of "Constitution of the Asset Securitization Fund Resulting from the Nuclear Moratorium, Assignment of Fractions of the Right to Compensation and Issuance of Securitization Bonds", a photocopy of the draft Contracts for *Lotus A* and *B*, and the Bidding Forms as defined in Condition 7.5 and the envelope in accordance with Condition 7.3. The Auction Documents will be made available to the Qualified Institutions (as defined in Condition 5 below) in the Registration Office at the time they file the application for their recording on the Auction Register, as described in Condition 6.
- DATE OF THE AUCTION**
 The Auction will be held on Thursday, June 20, 1996 ("Auction Date"), from 10:00.
- PLACE OF THE AUCTION**
 The Auction will be held at the *Dirección General del Tesoro y Política Financiera* of the Ministry of Economy and Finance, Paseo del Prado 6, 5th floor, 28014 Madrid.
- QUALIFIED INSTITUTIONS TO TAKE PART IN THE AUCTION**
 The following institutions (hereinafter "the Qualified Institutions") will be qualified to take part in the Auction and may file Bids (hereinafter "the Bids") in any of the Tranches of the Auction: credit institutions as defined in the Second Directive on Banking Coordination (89/646/EEC), investment companies authorized to provide underwriting services in securities issues as established in the Directive on Investment Services in the field of negotiable securities (19/32/EEC) and other institutional investors (such as Pension Funds, Mutual Funds, Insurance Companies, etc.), as defined in Royal Decree 29/1/1992 of March 27.
 Qualified institutions must be residents in or authorized to operate in any European Union member state and they must be considered registered as set out in Condition 6.
- REGISTRATION OF QUALIFIED INSTITUTIONS**
 6.1. From 11:00 on Monday, May 13, 1996 until 14:00 on Wednesday, June 12, 1996, the "Registration Period", those Qualified Institutions wishing to file Bids in any of the Tranches of the Auction must submit to the *Dirección General del Tesoro y Política Financiera* at the Ministry of Economy and Finance (Paseo del Prado 6, 7th floor, 28014 Madrid) (the "Registration Office"), an application in writing (the "Registration Application"), which must conform to the draft which shall be available to anyone requesting it at the Registration Office, signed by a Registered Attorney in Fact, (as defined below) with sufficient authorities for the purpose, applying for its registration on the Auction Register, stating:
 (i) the application of the Qualified Institution to be entered on the Auction Register and to enter thereon the attorneys in fact able to file Bids on its behalf (the "Registered Attorneys in Fact"), setting out the names of the persons who represent the Qualified Institution for the purpose of notices, who must be a Registered Attorney in Fact, (v) the names of the Registered Attorneys in Fact and the names of their National I.D. Cards, Residence Cards or Passports, in exceptional circumstances, until 14:00 h. on Wednesday, June 19, 1996, the Registered Attorneys in Fact may be replaced by other attorneys in fact who will thereafter be considered Registered Attorneys in Fact, after giving their names and the other particulars referred to in this section (iv).
 6.2. The following must be attached to the Registration Application: (i) a certified copy of the public deed or deeds or documents endorsed by a Public Notary or administrative authority with similar duties, duly legalized, as appropriate, by the Apostille of the Convention of The Hague of 1961 or equivalent procedure, evidencing the entity's status as a Qualified Institution and the authority of the Registered Attorneys in Fact, (ii) an original document evidencing the payment into account No. 0001800301 open in the Fund's name at the Instituto de Crédito Oficial of the amount of one hundred thousand (100,000) pesetas, which must be received for this sum will be revenue of the Fund and the Qualified Institutions will not be entitled to its reimbursement.
 6.3. The Registration Application must be filed on business days between 11:00 and 14:00.
 6.4. On receipt of the Registration Application and after verifying the attached documents, the officer at the Registration Office will enter the respective Qualified Institution on the Auction Register, awarding to it a registration number, by order of registration and notifying its Registration to it by fax. If the officer at the Registration Office considers that the documentation filed does not conform to the requirements set out in this Condition 6, he will notify the respective Qualified Institution by fax, within two (2) business days after the date of filing, of the defects preventing registration, so that the respective Qualified Institution may attempt to remedy such defects within the Registration Period.
 It should therefore be noted that Registration Applications received at the Registration Office during the last two working days of the Registration Period will not be considered for remedy, and thus any defect would therefore preclude the applicant entity from being entered on the Auction Register. Furthermore, the Qualified Institutions intending to file the documentation required during the Registration Period, should be aware that implementation of the required remedy could imply the adoption by the Qualified Institution of corporate resolutions or the performance of additional formalities.
- FILING OF BIDS**
 Bids may only be filed by Qualified Institutions duly registered at the Registration Office. Institutions complying with this requirement will be referred to as "Registered Institutions". The term for filing Bids will begin at 11:00 on Thursday, June 13, 1996 and will end at 14:00 on Wednesday, June 19, 1996. The Bids must be filed in the Registration Office on business days, between 11:00 and 14:00.
 Bids will be filed in accordance with the instructions of Condition 7 of the Auction Conditions, by completing the Bidding Forms which will be placed in the respective envelopes.
- BIDDING SYSTEM**
 The Bids filed by Registered Institutions (which institutions will be referred to as the "Bidding Institutions") from the time the Bid is filed) will only be valid if they conform to the stipulations of the Auction Conditions. The main features of the Bids are as follows:
 The Bids will be irrevocable and unconditional from the time they are filed.
 Bids to acquire Securitization Bonds may be filed individually by a single Bidding Institution or by a Group of Syndicated Institutions consisting of not more than ten (10) Registered Institutions. The Registered Institutions making up a Group of Syndicated Institutions will be jointly liable for the obligations arising from the Bid, without prejudice to the percentage of participation in the Bid set out therein. No more than one single Bid may be filed for this Tranche by each Registered Institution. A Registered Institution that has made an individual Bid may not form part of a Group of Syndicated Institutions. The same Registered Institution may form part of only one Group of Syndicated Institutions.
 Bids for Amounts of Participation in *Lotus A* and in *Lotus B* may not be made by Groups of Syndicated Institutions. There is a maximum number of Bids that one single Institution may make for Amounts of Participation in these Tranches.
 Bids to subscribe for Securitization Bonds must be made for all of the Securitization Bonds. Bids to subscribe for Amounts of Participation in *Lotus A* and in *Lotus B* must be for a minimum amount of one thousand million (1,000,000,000) pesetas or higher amounts that are multiples of one thousand million pesetas.
 The Bids shall state the Margin above or below LIBOR, in the case of *Lotus A* and 0.250% in the case of *Lotus B*.
 The Securitization Bonds will be subscribed for at a subscription price of 100% of their par value, although the Awarded Institutions will be entitled to receive on the Disbursement Date a fee of 0.125% of the par value of the Bonds which will be deducted from the principal to be disbursed.
 The Awarded Amounts of Participations in *Lotus A* will receive on the Disbursement Date an initial fee of 0.250% of the Amount of Participation Awarded, which will be deducted from the principal to be disbursed.
 The Awarded Amounts of Participations in *Lotus B* will receive on the Disbursement Date an initial fee of 0.500% of the Amount of Participation Awarded, which will be deducted from the principal to be disbursed.
- HOLDING OF THE AUCTION**
 The Auction will be held in accordance with the rules set out in Condition 9 of the Auction Conditions.
 The adjudication will be made considering, exclusively, the offers of Margins, applying the adjudication rules contained in Condition 9 of the Auction Conditions.
- NOTARIZED CERTIFICATE OF AWARDEES OF SECURITIZATION BONDS AND SIGNING OF PUBLIC INSTRUMENTS OF THE BONDS**
 After the Auction has been held, the following must appear before a Notary Public:
 - The Awarded Institutions of Tranche 1 of the Auction, to execute the Certificate of Awarded of the Bonds; and
 - The Awarded Institutions of Tranches 2 and 3, to execute the respective Public Deeds of the Loans.
- DISBURSEMENT AND SIGNING OF CERTIFICATES OF DISBURSEMENT**
 The Disbursement of the Bonds and of the Loans must conform to the provisions of the Auction Conditions and will be made on Thursday, July 4, 1996. The terms stipulated for the Disbursement of the Funds must be complied with strictly by the Awarded. Once the Disbursement has been made, the Management Company will execute the respective Certificates of Disbursement.
- EXPENSES**
 The expenses incurred by the Bidding Institutions in the making of the Bids will be for the account of the Bidding Institutions. The expenses of the Auction will be for the account of the Fund. The notary expenses and expenses arising from subscription of the Bonds and execution of the Loan Contracts will be for the account of the Fund. The expenses of remittance and issuance of additional copies of the Notarized Instruments will be for the account of the Awarded Institution requesting them.
- BUSINESS DAYS**
 For the purpose of the Auction Conditions, business days will be considered all days that are not public holidays in the Madrid market. Saturdays will not be considered business days.
- LAW AND JURISDICTION**
 This Auction and the rights and obligations arising from this Auction Conditions and from the Bids made hereunder, including registrations of Qualified Institutions and the award of Bids, will be governed by Spanish law.
 Institutions applying for registration on the Auction Register, waiving their right to any other forum to which they may be entitled, expressly submit to the jurisdiction of the Courts and Tribunals of Madrid.
 THIS ANNOUNCEMENT REFERS SOLELY TO THE CALLING OF AN AUCTION TO SELECT THE FINANCERS OF THE FUND (BONDS AND LOANS), THE PROSPECTUS OF THE FUND WAS VERIFIED AND REGISTERED BY THE NATIONAL SECURITIES MARKET COMMISSION (CNMV) ON APRIL 25, 1996, PURSUANT TO THE PROVISIONS OF THE SPANISH SECURITIES MARKET LEGISLATION. THIS ANNOUNCEMENT IS ADDRESSED SOLELY TO QUALIFIED INSTITUTIONS AS DEFINED IN SECTION 5 REGARDING THE BONDS. THE BID REFERS SOLELY TO SUBSCRIPTION FOR THESE. ANY SUBSEQUENT PURCHASE OR SALE OF THE BONDS IN SPAIN OR ABROAD MUST CONFORM TO THE LEGISLATION APPLICABLE THEREIN, AS APPROPRIATE.
 THE BONDS REFERRED TO IN THIS ANNOUNCEMENT HAVE NOT BEEN REGISTERED ACCORDING TO THE US SECURITIES ACT OF 1933 AND THEY MAY NOT BE OFFERED, SOLD OR DISTRIBUTED IN THE UNITED STATES OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS. THE TERMS USED HEREIN HAVE THE MEANING ATTRIBUTED TO THEM BY THE PROVISIONS OF THE SECURITIES ACT.
 THE PROSPECTUS OF THE FUND, CONTAINING THE AUCTION CONDITIONS AS AN APPENDIX, WILL BE MADE AVAILABLE AT THE PLACES STIPULATED IN EXISTING LEGISLATION.

Madrid, May 7, 1996
 TITULIZACIÓN DE ACTIVOS, SGFT, S.A.

BA in franchise agreement with Sun-Air

By Peter Pearce

British Airways is extending its franchise operations beyond the UK via an agreement with Sun-Air, the Danish regional airline.

Financial terms or fees were not disclosed, although BA said turnover of the franchise business had grown from zero to £50m "in little more than two years". The Sun-Air agreement is BA's seventh such arrangement; they are designed to facilitate inter-airline connections, reservations, and sales and marketing.

Sun-Air operates 250 flights a week in Scandinavia, mainly out of Copenhagen, Oslo and Stockholm. In 1995 it carried 120,000 scheduled passengers. Under the agreement Sun-Air's 12 aircraft will be repainted in British Airways Express colours and will carry BA flight numbers.

Sheffield Forgemasters £70m capital overhaul

By Tim Burt

Sheffield Forgemasters, the company which gained notoriety for supplying steel tubes for Iraq's supergun, is raising £70m to overhaul its share structure ahead of a possible stock market flotation.

The privately-owned forgings and castings manufacturer has arranged a secondary buy-out led by NatWest Ventures, enabling backers of the original 1988 buy-out to realise

their investment.

It has also recruited Mr Stuart Wallis, former chief executive of Fisons, as its non-executive chairman.

NatWest has invested £7.5m to provide an exit for Causeway Development Capital, one of the company's original backers, and has paid £3.5m for about half of the shares held by managers and employees. The reorganisation will leave NatWest with a 29 per cent stake.

The Bank for Investment in Italy

CONSOLIDATED HIGHLIGHTS AT DECEMBER 31, 1995			
(Lire billions)			
	1995	1994	
BALANCE SHEET DATA			
Total Loans	52,563	49,863	
Total Assets	69,583	69,317	
Shareholders' Equity	7,795	7,498	
Funds under management	19,493	21,246	
FINANCIAL MARGINS			
Profit on ordinary activities	864	821	
Profit for the year	552	551	

The contents of this statement, for which the Directors of IMI are solely responsible, have been approved for the purpose of Section 5.7 of the Financial Services Act 1986 by Price Waterhouse S.A.s. as an authorised person.

The English version of the 1995 Annual Report, including US GAAP reconciliation, will be available upon request from the Head Office of IMI S.p.A. at the end of May.

The dividend for the fiscal year ending 31 December 1995, which will be payable from 20 May 1996, is equal to Lire 500 per share.

ISTITUTO MOBILIARE ITALIANO S.p.A.
 Headquarters: Viale dell'Arte, 25 Rome, ITALY
 Inscricted in the Company Register in Rome no. 10945/91 (Tribunal of Rome)—Inscricted in the Registry of Banks and Parent Company of the IMI Group—Inscricted in the Registry of Banking Groups—Tax Code no. 00448420588 VAT no. 00896301001

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BUSINESS AND THE LAW

Ruling backs transsexual



EUROPEAN COURT

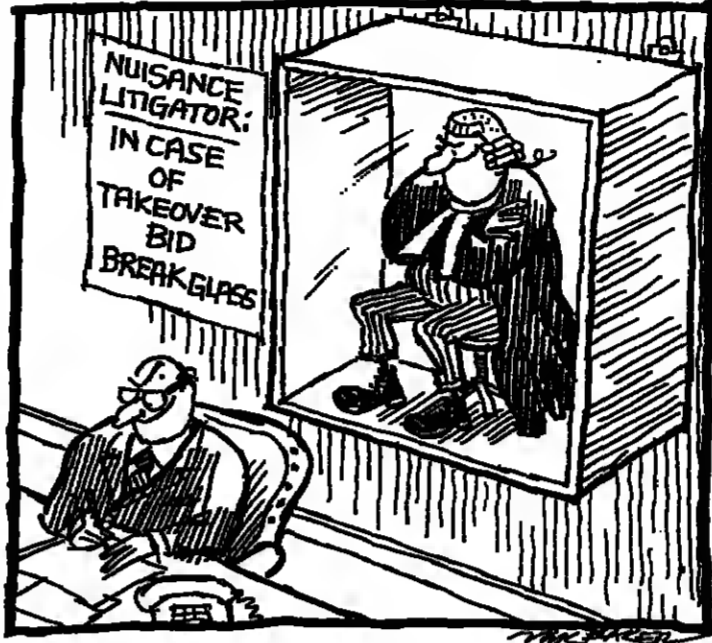
The dismissal of a transsexual for reasons related to a sex change was contrary to the principle of equal treatment for men and women enshrined in European law, the European Court of Justice ruled last week.

had undergone an operation to become a man. Having referred to the jurisprudence of the European Court of Human Rights in this field, the court observed that the principle of equal treatment contained in the directive meant that there should be "no discrimination whatsoever on grounds of sex".

The European Commission has abandoned its original proposal for a detailed takeover bid directive in favour of a new measure based on general principles. The move comes after 10 years of trying to persuade member states of the benefits of harmonised rules for reducing takeovers in the European Union.

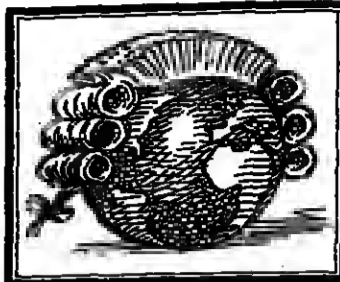
Plans unlikely to bite

EU takeover proposals will have little effect on UK practice, says Robert Rice



The panel points out, however, that neither the US nor Australian experience is relevant to the UK. Using litigation as a tactic is rare in the UK.

LEGAL BRIEFS



New link for City firm with Jakarta lawyers

Herbert Smith, the City law firm, has entered into a co-operation agreement with the Jakarta law firm, Prof Dr Marwan Darns Badruzaman & Partners.

However, the European Court has made clear that national courts enjoy wide discretion in deciding whether to make a reference. In addition, English courts have laid down guidelines which suggest that unless the point of law in issue is very difficult and important, English judges should decide it themselves.

BUSINESS OPPORTUNITIES

READERS ARE RECOMMENDED TO SEEK APPROPRIATE PROFESSIONAL ADVICE BEFORE ENTERING INTO COMMITMENTS

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MOSCOW EXPRESS. Your mail delivered in Moscow by courier within 5 days for £14.75 per item (up to 50 grams).

TRANSPORT MANAGEMENT CONSULTANTS. Mergers & Acquisitions only for transport and logistic companies all over Europe.

PROJECT AND COMMERCIAL. Funding available to UK and international clients. Anglo American Group Plc.

FOR MERGER. Chemical blending and packaging company with full range of blending, filling, bottling and warehousing equipment.

AVL Agents Wanted. to market Mobylex's Automatic Vehicle Location/GPS/Alarm system/vehicle E-mail unit.

EXCITING INVESTMENT OPPORTUNITY. Leading UK Training Company. Regarded as the market leader in the provision of training materials.

MARKET RESEARCH/REPORTS PUBLISHER. Expanding research/consulting group interested in acquiring control of small/medium size concerns.

HEALTH CARE PRODUCTS. Very successful distributor of health care products.

AVL Agents Wanted. to market Mobylex's Automatic Vehicle Location/GPS/Alarm system/vehicle E-mail unit.

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INTERNATIONAL PEOPLE

New chairman at Aker Group

The uproar at Aker, this Norwegian offshore engineering and cement group, caused by the departure last month of both chairman and chief executive, has been at least partly resolved by the election of Bjørn Rune Gjelsten as the new chairman.

As representative of Resource Group International, the biggest shareholder, Gjelsten succeeds Gerhard Heiberg, the prominent businessman who quit suddenly on April 19, just two days after forcing the resignation of Tom Ruud as chief executive in a row over Aker's strategy.

RGI, one of the world's biggest fishing industry powerhouses, is controlled by Kjell Inge Røkke, a young Norwegian entrepreneur who made his fortune in the fishing industry in Seattle in partnership with Gjelsten.

Røkke also retains a place on the Aker board. He and Gjelsten were supporting Heiberg's pressure on Ruud to expand more aggressively in the offshore engineering business - but other Norwegian institutional shareholders were more cautious and objected to the removal of Ruud. Now it seems RGI has asserted its authority as largest shareholder.

But, just to compound the issue, Ruud is also a member of the new board because of his position as chairman of Scancon, Aker's big cement interest. His departure as chief executive appears not to be in doubt; the next step will be to appoint a new one. Hugh Carnegy

Senior changes at JP Morgan

JP Morgan has announced senior changes in its European operations, following the appointment of Didier Cherpitel (pictured), currently head of its Paris office, as head of its private banking group in Europe.

Cherpitel, who will be based in London, will co-ordinate the bank's coverage of private banking clients in Europe as well as being a member of the European management committee. JP Morgan's most senior policy-making group in Europe.

Cherpitel will be succeeded by Jacques Aigrain, a managing director in JP Morgan's London-based European advisory group. He takes up the position next month, but will continue to lead the bank's pharmaceutical and healthcare practices in Europe in addition to his role as head of the Paris office.

JP Morgan has built up an enviable reputation as an advisor to pharmaceutical companies and recently advised Ciba Geigy on its merger with Sandoc.

To strengthen further its expertise in this sector, JP Morgan is moving Stephen Schabale from New York to London to become head of the chemical and pharmaceutical advisory team. He takes up the position in June and will report to Klaus Diederichs and Rod Peacock, co-heads of the bank's European advisory group. Antonia Sharpe

Wright move at Jefferson Smurfit

Jefferson Smurfit's decision to promote Paddy Wright to president and chief operating officer shows the Irish paper and packaging group has heeded institutional shareholders' requests to appoint more non-family members to top posts.

The 55-year old Dubliner, previously chief executive of the group's Ireland and UK operations, is taking up a post that has been vacant since the departure of Howard Kilroy almost exactly a year ago. Since then shareholders have looked to Michael Smurfit, the chairman and chief executive, to share more of the responsibility for running the group and to adopt a board structure more in line with the Cadbury committee's recommendations on corporate governance.

Wright will take on the day-to-day task of managing Smurfit's four divisions. Alongside Ray Curran, finance director, he will act as a counterpoint to the strategy-oriented role played by Smurfit.

Paddy Wright says Smurfit's main challenge is to manage the transition of an industry that is moving from an emphasis on quality to an emphasis on cost-cutting and consolidation. In this respect, he will play an important role in pursuing acquisitions in the industry, particularly in Europe. Wright, a former president of the Confederation of Irish Industry, joined Smurfit in 1976. Patrick Horverson.

ON THE MOVE

Catherine Walter, who is a director of the National Australia Bank, joins the board of the AUSTRALIAN STOCK EXCHANGE. Gerard Bradley, former under treasurer of Queensland Treasury, also joins the exchange, working on strategic issues.

Glenn Hazard is appointed president and chief operating officer of FTP SOFTWARE, the US supplier of Internet software. Hazard was previously senior vice president and chief information officer at Legent Corporation.

Rolf Eckrodt, formerly president of Mercedes-Benz in Brazil, joins the executive board of ABB DAIMLER-BENZ TRANSPORTATION (Adtranz), the rail systems joint venture founded with ABB, as deputy chief executive officer. He replaces Axel Gattung who resigned in March. Ben van Schaik, chairman of the board of management of the Netherlands aircraft manufacturer Fokker, succeeds Eckrodt.

Claus Hendricks, a board member at Thyssen Stahl, together with Hansgeorg Hofmann, Dresdner Bank board member, Klaus-Juergen Schmieder, a deputy board member at Hoechst, and Hubert Lienhard, a board member at ABB Mannheim, have all been appointed to the supervisory board of SGL CARBON. Leaving are Klaus Dietz, management chairman at Hoechst Veterinar; Hellmut Fischele, chairman of the Max Planck Institute; Justus Mische, board member at Hoechst; and Christoph von Schwarzkoppen from the legal department at Hoechst.

Eric Resnick, 39, becomes director of business and product development at DATASCREEN, the global financial information group. He was previously general manager, North America.

Jean-Pierre Aubert, former chairman of Union Europeenne de CIC, is appointed chairman of BNP's subsidiary BANQUE DE LA CITE. He replaces Jean-Pierre Dreyer.

Ryokichi Kunugi replaces Shogo Matsuo as president of SONY MUSIC ENTERTAINMENT (Japan); Matsuo becomes chairman.

Robert Gummell is appointed as president and chief executive of SALOMON BROTHERS CANADA.

Robert Korthals and Poul Hansen join the board of SUNCOR, one of Western Canada's two, oilsands producers. Kor-

thals was previously president of Toronto Dominion Bank. Hansen is chairman and general manager of Sperling Hansen Associates.

William Zundt, president of Wells Fargo, becomes the Federal Bank of San Francisco's appointee to the FEDERAL ADVISORY COUNCIL in Washington DC. He succeeds William Siart and Edward Carson of First Interstate Bancorporation.

Patrick Gavin, 47, becomes chief executive officer of AERO INTERNATIONAL (Regional), a joint venture between Aerospaciale de France, British Aerospace and Alenia of Italy. He succeeds Henri-Paul Fuet, 55, who was responsible for establishing it; Fuet assumes new responsibilities within Aerospaciale.

Richard Bohnet becomes president and chief executive of WETTEK, the US software company. He replaces David Gellatly, who resumes his role as an independent member of the board. Bohnet was most recently president and chief executive of Acumen International.

Minoru Murofushi, president of Itochu Corp, has been appointed to the Asia-Pacific Economic Cooperation (APEC) forum's new business advisory council; also joining APEC are Nobuo Tatefai, chairman of Omron Corp and Kenzo Nakagawa, president of Showa Plastics.

Stefano Granati has been appointed general manager of Italian toll road operator AUTOSTRADE.

Alec Brennan becomes an executive director of CSR. He is the executive general manager responsible for finance and for CSR's investments in bauxite, alumina, aluminium and cement.

John Morschel, an executive director of Westpac Banking Corporation, joins the board of CSR.

John Riley has been elected chairman of the board of COOPER INDUSTRIES, replacing Robert Cizik, who has retired. Riley continues as president and chief executive officer.

Bernard Laroutour is the new president of INRIA (the French National Institute for Computer Science and Control). He takes over from Alain Bensoussan, now president of the French space agency (CNES). Laroutour was director of CERMICOS, an educational and research establishment.

Jorma Vaajoki has been appointed the new president and chief executive of Finnish-

forestry group METSA-SERLA OY. He will replace Timo Porsanen who has been appointed senior executive vice president of Metsa-Serla's parent Metsaliitto Yhtymä.

Piergiorgio Domini has been appointed head of institutional equity trading at YORKTON SECURITIES, a Canadian investment dealer.

John Shoemaker has been appointed by SUN MICROSYSTEMS as vice president and general manager, enterprise servers and storage group. Mel Friedman has been appointed vice president, worldwide operations.

Dun & Bradstreet has appointed two members to its senior management team - William Dwyer, president and principal executive officer of Moody's Investors Service, and Frank Noonan, president and principle executive officer of The Reuben H. Donnelley Corporation.

COGNIZANT CORPORATION, the largest of the three publicly traded companies arising from the break-up of Dun & Bradstreet, has appointed three executive vice presidents - William Joseph, Dennis Sisco and Victoria Fash, the last serving as the company's chief financial officer.

James Egan, 47, becomes senior vice president and chief financial officer at RIVERWOOD INTERNATIONAL. He joins from Coopers & Lybrand, where he was a partner and board member.

Paul Rioux has been appointed president of UNIVERSAL MEDIA GROUP. Bob Binias has been promoted to chief operating officer to chairman, Universal Interactive Studios, part of the Universal New Media Group.

Bob Every, currently managing director of Tubemakers of Australia, now part of BHP, joins BHP as group general manager and chief operating officer, international division, BHP Steel.

Lance Coburn, currently group general manager and chief operating officer international division, BHP Steel, has been appointed to group general manager and senior vice president finance, BHP Minerals.

Peter Grey, a senior public servant in the Department of Foreign Affairs and Trade, has been appointed by Australia's federal government the country's first ambassador for the ASIA-PACIFIC ECONOMIC CO-OPERATION forum, the regional grouping.

Edward Quinn becomes

president of the MCGRAW-HILL Companies' Broadcasting Group, replacing Edward Reilly, who has left the company.

EDS has announced its board of directors to follow its separation from General Motors: James Baker, secretary of state in the Bush administration; Dick Cheney, defence secretary in the Bush administration; Ray Groves, former chairman and chief executive of Ernst and Young; Ray Hunt, chairman and chief executive of Hunt Oil; Robert Kidder, chairman and chief executive of Borden; Franklin Raines, vice-chairman of Fannie Mae; Judith Rodin, president of Pennsylvania University; Enrique Sosa, executive vice-president of Amoco; Lester Altherl, chairman, president and chief executive of EDS; and EDS senior vice presidents Gary Fernandes and Jeff Heller.

Steven West, president of Electronic Data Systems' (EDS) Information business units, has been appointed to the board of CISCO SYSTEMS, the global supplier of internet working solutions for corporate intranets and the global internet.

Leonard Forman, 50, has been named by THE NEW YORK TIMES Company as senior vice president responsible for corporate development, new ventures and electronic businesses. He has worked as a media consultant after serving as president and chief executive of a Nynex/Newsday joint venture.

C J Silas becomes chairman of the board of COMSAT, the US satellite operator, succeeding Melvin Laird, who retires in May. Silas retired from Phillips Petroleum Corporation in 1994 as chairman and chief executive. In 1996, he became chairman of Ascent Entertainment Group.

Remy Kremer, who has been on the board since April 1978, has been appointed chairman of the LUXEMBOURG STOCK EXCHANGE, taking over from Edmond Israel. Kremer retired from the Banque Generale du Luxembourg in 1994.

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AMERICA

Tech stocks mixed as Dow falls further

Wall Street

US share prices added to last week's declines in mid-session trading yesterday, in spite of a modest rebound on the bond market, writes Lisa Branstetter in New York.

Shares posted gains in the first 15 minutes of trading, with the Dow Jones Industrial Average rising more than 20 points, but by 9.45am they had reversed course.

By 1pm the Dow was off 36.49 at 5,441.54, the Standard & Poor's 500 had fallen 3.37 to 636.26 and the American Stock Exchange composite had slipped 1.68 to 588.01. Volume on the New York Stock Exchange came to 217m shares.

Technology shares fell with the broader market, although some Internet companies managed to post gains. The Nasdaq composite rose 5.63 at 1,194.03 and the Pacific Stock Exchange technology index slipped 0.5 per cent.

The bond market posted modest gains in quiet trading as recent lower prices proved attractive to some investors, but the yield on the benchmark 30-year Treasury bond remained above 7 per cent.

However, the outlook remained unclear on both markets, given the conflicting signals of the strong US economy that has arisen from recent economic data. On Friday the market dropped as the Labor Department's April employment report showed little job creation but a slight gain in average hourly earnings.

There were no important economic data out yesterday, but tomorrow the Federal Reserve is expected to announce its "Beige Book" summary of the state of the economy and on Friday the Commerce Department is to put out figures on the producer price index.

In individual shares, Apple Computer gained 3 1/4% or 6 pence at \$54, on confirmation that it would license its Macintosh operating system to IBM, which dipped 1 1/4% to \$106 1/2.

Variety, a maker of brake systems and diesel engines, added 3/4% at \$43 1/2 after confirming that it was in discussions with the UK's Lucas Industries about a possible combination of businesses.

Shares in commercial banks continued the slide begun amid fears of higher interest rates. Chase Manhattan Bank lost 1 1/4% at \$64, Citicorp shed 1 1/4% to \$74 1/2, Wells Fargo weakened 3/4% to \$31 1/2 and BankAmerica fell 1 1/4% to \$70 1/2.

Canada
Toronto remained in positive territory in busy mid-session trade in spite of Wall Street's retreat, as the heavily weighted gold shares group rose by 2.2 per cent.

The TSE-300 composite index was 8.1 higher by noon at 5,132.60 in volume of 47.7m shares.

Newsco Well Service rose 3/4% to C\$32 after it attracted a "white knight", Great Lakes Oil, to a takeover bid. On Sunday, the Indiana-based Great Lakes offered C\$30.50 per share in a friendly deal, while BJ Services offered C\$27.87 a share in cash and was rejected by Newsco's board.

Among mostly higher gold issues, Black Swan Gold Mines advanced 14 cents to 79 cents but Bre-X Minerals dropped C\$7.75 to C\$198.35.

Increases in long-term rates, Bear Stearns added.

CARACAS rose 1.3 per cent in mid-session trade, spurred by a sharp rise in the benchmark Electricidad de Caracas, a share in cash and was rejected by the government's board.

Among mostly higher gold issues, Black Swan Gold Mines advanced 14 cents to 79 cents but Bre-X Minerals dropped C\$7.75 to C\$198.35.

EDC announced on Friday that it had suspended its traditional April stock dividend because of financial difficulties arising mainly from the lack of government approval to increase rates.

It is likely that the first upwards move in US short-term interest rates may have an even more dramatic effect on liquidity flows to emerging markets in general and to Latin American markets in particular than the recent

EUROPE

Turnover slides, Paris pores over media reports

The absence of the London market hit activity, PARIS saw turnover ebb to FF2.8bn, but it pored over its media reports and received some individual action, as the CAC-40 index fell 24.96 or 1.3 per cent to 2,080.42 after the mid-morning downturn on Wall Street.

Moulinex dropped FF8.70, a full 10 per cent, to FF78.30 following a gloomy interview with its chairman Mr Pierre Blayau. At the same time broker Cheuvreux de Virieux remained "very negative", estimating that the current restructuring of the consumer durables group would cost between FF500m and FF700m.

Eurotunnel started better, up 4.4 per cent after weekend reports of a draft debt agreement with its banks which would give them a 49 per cent stake in the group; however, the equity dilution involved in the restructuring of the consumer durables group would cost between FF500m and FF700m.

Some market participants were still hoping for more mergers or divestments, but if these hopes were not fulfilled there could be heavy profit-taking. Mr Scherrer added that the positive liquidity effect caused by falling money market and bond yields would ease noticeably in coming months.

In pharmaceuticals, Ciba fell SF15 to SF1,270, and Sanofi SF23 to SF1,286 on the view that their merger plans were unlikely to escape unscathed from the EU's four-month anti-trust investigation.

Nestlé rose SF19 to SF1,417, still supported by last week's favourable first-quarter report. AMSTERDAM noticed

another record closing high, the AEX index finishing 5.65 better at 559.82. Equities dipped early in the day, suggesting some vulnerability to levels on Wall Street, but strong fundamentals and a lack of sellers combined with a fresh cut in Dutch money market rates to improve sentiment later in the day.

DSM, the chemicals group, got back on the upgrade after a slip on Friday, the shares closing at FF177.50. Dealers talked of buy recommendations for the stock, following last week's first-quarter figures. Financials were in demand, with ABN Amro up a net FF12.80 at FF191.20.

FRANKFURT saw the Dax index rise 1.09 to 2,473.53, but turnover fell from DM5.3bn to DM6.7bn. There were contrasts in chemicals: Henkel and Merck rose by DM5 to DM609 and DM1,05 to DM56.80, but Hoechst shed another DM6.50 at DM481.50.

Mr Andreas Schmidt at BZW in Frankfurt said that Henkel was still rising on the board's talk of addressing shareholder value, but that BZW was sceptical about this, since Henkel had apparently ruled out asset divestiture, saying that it was perfectly happy with its present structure. Merck, he said, was showing a technical recovery

after last week's weakness on disappointing results; and Hoechst was still subject to profit-taking after a baloney year in 1995.

STOCKHOLM rose as speculation mounted ahead of first-quarter figures due tomorrow from Ericsson and Scania. The Afarsvärlden general index put on 16.5 at 996.8.

Ericsson gained SKr3 at SKr144, in line with a rise in New York on Friday. Scania was up SKr2.5 at SKr188.

Trelleborg, the mining and engineering group, moved ahead SKr2.5 to SKr96.5 with news of a 26 per cent drop in first-quarter profits proving in line with expectations.

HELSINKI was higher as Nokia rose sharply to match its gain on Wall Street last Friday. Nokia put on FM7 at FM180.80, surprising some analysts with such a sharp rise ahead of first-quarter results due on Thursday. The flex index firmed 17.73 to 1,968.08.

Raisio, the food and chemicals group, fell FM6 to FM156 after its profits warning.

OSLO was put out by a disappointing first-half result at the energy and drug group Hafslund Nycomed. Hafslund A fell NKr4 to NKr190, the total index shed 6.36 to 817.94.

MILAN was weak, reflecting Wall Street's dip, worries over the forthcoming mini-budget and April's unchanged inflation data, suggesting that the recent fall in inflation was at an end. The Comit index declined 1.46 to 657.00.

Italcementi, suspended on Friday ahead of the announcement on its 1995 results and its absorption of two affiliates, Cementeria di Sardegna and Cementeria Siciliana, was down L249 to L11,228.

Written and edited by William Cochrane and Michael Morgan

ASIA PACIFIC

Election uncertainties leave Bombay 1.9% lower

Uncertainty over the outcome of the country's continuing elections left BOMBAY 1.9 per cent lower as speculation over the location of the foreign portfolio shares such as Reliance and State Bank of India.

The BSE 30-share index lost 72.64 to close at 3,712.87 as analysts noted that foreign funds would remain cautious until a clear victor emerged in the polls.

They added that speculators were particularly active in Tokyo, Manila and Bangkok were closed for holidays.

Reliance as the shares were in a no-delivery period ahead of the company's book closure. This allowed speculators to play the stock without payment or delivery for the next three weeks.

Reliance and State Bank each retreated Rs13 to Rs246 and Rs268 respectively.

HONG KONG, as in the case of many of the regional markets, tracked Wall Street's downward path seen on Friday, leaving the Hang Seng index 36.70 off at 10,597.54, but up from the day's low of 10,499.90. Turnover dwindled to HK\$3.2bn.

Against the trend, HK Telecom jumped 45 cents to HK\$16.20 and Hutchison put on 50 cents at HK\$47.50.

Pearl Oriental leapt to the top of the most active list in late trade, gaining 2.5 cents at HK\$2.05 on turnover of HK\$256m, but brokers were unable to explain the activity.

Among major blue chips, HSBC shed HK\$1 to HK\$112. Hang Seng Bank receded 75 cents to HK\$75.75 and Cheung Kong eased 50 cents to HK\$53. Henderson Land was down 75 cents to HK\$53.25.

RIAA LUMPER was generally easier as investors reduced their exposure due to renewed fears of a US interest rate rise and persistent rumours of a large Malaysian trade deficit for February.

The composite index fell 14.11 or 1.2 per cent to 1,173.89, as dealers noted that the current high valuations of Malay-

sian stocks were also limiting fund buying.

JAKARTA dipped below 600 for the first time since April 10 last after the foreign portfolio index of Telkom, the JKSE composite index losing 8.45 or 1.4 per cent at 599.67.

Telkom fell Rp125 to Rp3,525 in active trading, some 7.7m shares changing hands. This followed Telkom's drop in New York on Friday, which brokers ascribed partly to generally weak market sentiment.

Polysindo, a second liner, made strong gains on talk of an impending share issue. Brokers said the company was likely to reach an agreement on a private placing through foreign houses, and 6.6m shares were traded as the stock climbed Rp125 to Rp1,650.

Bank Mashill ended Rp50 higher at Rp2,275 on reports that a business tycoon was planning to increase his stake in the company.

WELLINGTON, which had battled high interest rates for several months, closed sharply weaker, the NZSE-40 index slipping 30.24 or 1.4 per cent to 2,108.68 as bond yields continued to rise and investors worried about uncertainties surrounding the US election.

Volume was thin at NZ\$45m as market leaders fell, Telecom ending the day 6 cents down at NZ\$6.18 and Fletcher Paper losing 5 cents at NZ\$3.93. Carter Holt, buoyant in recent weeks after US analysts decided that the pulp and paper cycle had bottomed, relinquished 7 cents at NZ\$3.32.

INL's 20-cent fall to NZ\$5.05 was linked with weak April pagination data, a decline in the number of newspaper pages published reflecting low advertising volume; and Air New Zealand "A" was 7 cents weaker at NZ\$2.58 as brokers said that the company might need a rights issue after the Ansett acquisition.

TAIPEI saw resistance at the 6,300 level and heavy profit-taking in hyper-sensitive financials, the most heavily weighted sector in the index, in spite of news that April's annual consumer price growth

was lower than expected at 2.77 per cent.

The weighted index ended down 55.47 at 6,098.37, off a high of 6,201.16. Turnover was active at T\$58.1bn but lower than in recent sessions.

In financials, Shin Kong Life dropped T\$7 to T\$106. Textiles, constructions and chemicals were weak, too, but the electronics sector rose 2.9 per cent on bright second-quarter prospects. Taiwan Semiconductor rose by the daily 7 per cent limit, for the second day, to T\$45.50.

SYDNEY's base metals majors were a bright spot in a sluggish market as metals prices remained firm. CRA rising 17 cents to A\$20.670, although the All Ordinaries index dipped 1.8 to 2,297.2.

The drugs group Biota moved forward 20 cents to A\$3.75 after it said that preliminary clinical results of its OG187 flu drug indicated that it was well tolerated and could be effective in the treatment of naturally acquired influenza.

SHANGHAI's local currency A shares closed sharply higher on heavy demand for Shanghai Petrochemical amid rumours it plans to issue convertible bonds, while the hard currency B shares were little changed.

The A index advanced 23.01 to 698.14 as Shanghai Petrochemical surged 20.4 per cent. The B share index edged down 0.31 to 61.22.

SHENZHEN's A shares staged a strong rebound after three sessions on the downward path, fuelled by rumours that the China Securities Regulatory Commission would soon outline new measures to crack down on speculation in the commodities futures markets. The index rose 8.02 or 5 per cent to 169.46. The B index inched up 0.03 to 66.06.

SINGAPORE was lower on active selling by some fund managers of blue chip bank and property stocks.

The Straits Times Industrial index finished 12.60 down at 2,400.68.

Kemayan, a Malaysian OTC stock seen as a takeover target, was the day's most active issue. It recovered from an intra-day low of S\$2.63 to close at S\$2.75, still down 8 cents from Friday.

SEOUL was higher after a

day of selective stock picking which took the composite index 9.45 ahead to 974.10.

Korea Long-Term Credit Bank rose Won1,400 in late trading to its upper limit of Won25,300 on rumours that Kyobo Life Insurance was planning to take over the bank.

Telecommunications shares climbed as investors speculated on which company would win a service licence in June.

Dacom rose Won9,000 to its upper limit of Won163,000 and Korea Mobile Telecom added Won41,000 at Won73,000.

Talk that Midopa Department Store was planning to expand its entertainment business by strengthening its cable television business sent its shares forward the day's limit to Won11,600, up Won600.

Rates rise warning

Growing prospects for a rise in short-term US interest rates in the third quarter of the year could hurt Latin American economies, Bear Stearns warned yesterday.

The firm said that although Latin American markets had shrugged off recent rises in long-term interest rates, they might not be able to resist US rate pressure for long.

"It is likely that the first upwards move in US short-term interest rates may have an even more dramatic effect on liquidity flows to emerging markets in general and to Latin American markets in particular than the recent

increases in long-term rates," Bear Stearns added.

CARACAS rose 1.3 per cent in mid-session trade, spurred by a sharp rise in the benchmark Electricidad de Caracas, a share in cash and was rejected by the government's board.

Among mostly higher gold issues, Black Swan Gold Mines advanced 14 cents to 79 cents but Bre-X Minerals dropped C\$7.75 to C\$198.35.

EDC announced on Friday that it had suspended its traditional April stock dividend because of financial difficulties arising mainly from the lack of government approval to increase rates.

Downbeat mood in S Africa

Johannesburg was broadly lower, depressed by a range of negative factors and sapped of normal volumes by the holiday in London.

Analysts commented that renewed weakness in the battered rand compounded worries about the fate of elections in troubled KwaZulu-Natal province.

The overall index fell 62.6 to 6,864.6, industrials lost 77.2 to 8,127.4 and golds finished 29.6 weaker at 1,933.7.

The failure of Mr Thabo Mbeki, the deputy president, to unveil his policy initiative for growth and development, first mooted last November

and expected in its final form last Friday, was said to have been another frustration. The Mbeki initiative was expected to have been mildly bullish for the market.

Blue chips were hard hit by the downbeat mood, with Anglo American dropping R5 to R278.00, Impala Platinum, a favourite among rand hedge investors in recent weeks, fell R3 to R76 and Iscor, the steelmaker also considered a solid hedge against rand weakness, eased 6 cents to R3.93.

Among the gold stocks, Driefontein retreated R1.50 to R98.50 and Western Deep Levels slipped R3 to R217.00.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NetWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY MAY 5 1996					THURSDAY MAY 2 1996					DOLLAR INDEX					
	US Dollar Index	Day's Change %	Point	Staring Index	Yen Index	DM Index	Local Currency % chg on day	Local Yield	Gross Div. Yield	US Dollar Index	Point	Staring Index	Local Currency % chg on day	Local Yield	52 week High	52 week Low
Australia (80)	210.11	-0.8	207.34	138.09	168.83	175.38	-1.1	3.93	211.84	209.46	140.17	168.81	177.28	211.84	162.86	172.81
Austria (25)	185.47	-1.0	183.02	122.78	147.27	147.18	-1.3	1.51	187.29	185.18	123.92	148.24	149.14	186.29	168.11	168.26
Belgium (21)	207.35	-0.8	204.82	137.23	164.64	160.51	-1.3	4.11	209.02	206.57	138.30	166.57	162.58	206.57	160.62	160.69
Brazil (28)	157.23	-0.4	153.16	104.08	124.85	287.16	-0.4	1.90	157.83	156.08	104.43	125.77	288.23	170.25	123.97	142.15
Canada (69)	181.88	0.2	180.52	107.01	120.35	150.52	0.2	2.27	181.38	180.58	106.78	126.80	159.17	162.75	134.14	135.84
Denmark (30)	286.24	0.4	282.33	196.10	235.22	237.30	0.0	1.80	285.17	281.66	192.22	235.22	237.30	285.17	237.83	237.83
Finland (23)	187.72	0.3	185.24	124.25	148.05	189.14	0.0	2.84	187.18	185.07	123.85	148.19	189.21	278.11	171.73	204.57
France (87)	198.23	-0.7	195.66	129.91	155.83	158.95	-1.0	3.01	197.89	195.45	130.80	157.53	160.58	193.39	167.70	186.05
Germany (83)	184.47	-1.2	182.30	135.59	130.59	130.59	-1.1	1.81	186.50	184.83	110.17	132.58	132.58	174.38	149.49	154.86
Hong Kong (59)	422.36	-1.7	416.78	279.59	335.36	418.48	-1.7	3.37	429.81	424.85	284.39	342.60	426.94	451.18	326.78	326.78
Ireland (18)	273.93	-0.3	270.32	181.24	217.51	248.11	-0.4	3.35	274.72	271.63	161.77	218.50	248.14	277.20	220.31	224.97
Italy (59)	143.20	0.3	142.10	93.08	65.50	97.16	0.3	2.10	142.47	142.53	92.53	65.51	97.51	142.47	67.22	74.72
Japan (45)	161.04	-0.1	158.92	105.61	127.87	106.81	0.0	0.72	161.12	159.12	105.61	128.38	106.81	154.78	137.75	151.99
Malaysia (107)	578.17	-0.8	571.53	383.40	459.87	556.31	-0.8	1.55	583.57	577.00	388.13	465.04	560.00	585.09	423.77	475.42
Mexico (16)	1233.03	-0.6	1217.26	816.84	979.53	1002.28	-0.5	1.44	1240.73	1226.75	800.86	988.71	1026.15	1319.81	781.89	1067.03
Netherlands (19)	288.72	0.0	284.81	191.13	225.26	224.78	-0.5	3.14	288.00	285.54	191.08	225.26	224.78	288.00	225.26	225.26
New Zealand (18)	82.43	-0.8	81.34	54.88	65.45	63.75	-0.8	4.29	83.06	82.12	54.95	66.19	64.01	85.49	76.28	82.98
Norway (53)	248.04	-0.5	245.78	164.89	187.74	221.69	-0.8	2.34	250.17	247.36	165.53	198.26	225.65	226.75	215.04	229.87
Singapore (4)	435.82	-0.7	430.07	288.50	348.05	281.72	0.9	1.53	438.78	433.84	290.33	349.68	284.26	482.51	368.81	368.83
South Africa (45)	362.17	-1.5	357.39	238.75	287.57	347.71	-1.0	2.02	367.83	363.49	243.25	282.98	351.34	437.76	338.91	362.22
Spain (87)	173.85	-0.1	173.53	118.41	136.63	168.91	0.0	3.27	176.03	174.05	116.47	140.29	169.98	178.85	141.19	143.20
Sweden (49)	242.02	0.3	237.81	128.41	271.67	348.65	-0.1	2.2	241.25	239.90	128.41	271.67	348.65	241.25	237.81	237.81
Switzerland (30)	237.91	-0.7	234.77	157.49	186.50	183.33	-1.1	1.59	239.47	236.77	159.45	180.83	184.40	232.34	194.11	190.05
Thailand (49)	181.92	-0.2	178.61	120.42	144.44	178.36	-0.1	1.84	182.92	180.17	120.57	145.21	178.65	180.98	148.74	161.87
United																

NEWS: UK

Extension of chairman's term will be seen as vote of confidence in insurance market's recovery plan

Settlement with Names 'likely next year'

By Jim Kelly in London

Lloyd's of London will today announce that Mr David Rowland's term of office as chairman is to be extended by a year to the end of 1997 to what will be seen as a vote of confidence in the market's ambitious plans for recovery.

Mr Rowland, who became chairman in 1993, has spearheaded Lloyd's plans for reconstruction and renewal and is personally associated with the market's efforts to convince

litigating investors that they should back the proposed settlement. The extension to Mr Rowland's contract, which was agreed by the market's ruling

LLOYD'S
LLOYD'S OF LONDON

The council, could also give Lloyd's an opportunity to alter the law so that his successor can be drawn from outside the market. The announcement will also

be seen as providing continuity following the unexpected resignation last November of Mr Peter Middleton as chief executive of Lloyd's to take a job with Salomon Brothers, the US investment bank.

Mr Rowland said yesterday that he took the council's offer as "a vote of confidence in the policies we have pursued for the past four years to restore the society's fortunes". He said he was "confident" the settlement would be completed in 1997. The news comes within

hours of confirmation that Mr Rowland is expected to tell Names, the individuals whose wealth has traditionally backed the market, that the cost of setting up Equitas, a proposed rescue vehicle, has fallen sharply.

The extra funds Names are expected to be asked to provide will be about £1bn (£1.5bn). The Equitas premium had been expected to be £1.9bn. The steep fall in the cost will boost the chances of Lloyd's recovery plan succeeding when Names

vote this summer. Offsetting the cost of Equitas, a reinsurance company which will take over billions of pounds of mainly US asbestos and pollution liabilities, will be an out-of-court offer to loss-making and litigating Names worth £3.1bn. This could increase if auditors' contributions of about £100m are included.

Today will also see a judgment in the so-called Clementson case in which the Writs Response Group of Names claims that Lloyd's central

fund is in effect a cartel and therefore in breach of European Union law. The fund is used to meet insurance claims when Names are unable or unwilling to pay debts.

Today also sees further hearings in the case between California securities regulators and Lloyd's. The regulators allege that Lloyd's mis-sold investment in the market and failed to warn potential Names of the risks involved, including those from pollution and asbestos related claims.

UK NEWS DIGEST

Privatisation of Post Office back on agenda

The government intends to resurrect privatisation of the Post Office, which it abandoned two years ago after fierce opposition from many of its own supporters in the House of Commons. A pledge to sell the Post Office is set to be included in the Conservative party manifesto for the next general election, following agreement between ministers and Mr Brian Mawhinney, party chairman, that party opponents to the sale could be won round. Revival of the sell-off has been driven by senior ministers including Mr Michael Heseltine, the deputy prime minister. They believe the government "lost its nerve last time". Ministers are now considering the mechanics of the privatisation, which could include selling component businesses of the Post Office separately.

In a separate signal of its continuing commitment to competition in the postal services, the UK Department of Trade and Industry will this week call on the European Commission to consider extending its proposals on postal service liberalisation. The DTI will give its support for the Commission's plan to allow private companies to compete for business mailshots of more than 5,000 letters and incoming cross border mail from the end of the century. Since the government abandoned the privatisation in June 1994, ministers have extended commercial opportunities for the Post Office.

James Harding, Westminster

Truck demand down sharply

Figures for truck registrations in April, to be published later this week, will show a severe fall in demand, casting doubt on previous hopes for recovery in the sector. The impact of the April registrations of commercial vehicles of more than 3.5 tonnes will reinforce bearish data for truck production in the first quarter, which showed output falling by more than 4 per cent to 62,277 vehicles compared with 65,194 a year before. The April figures mark an accelerating downward trend for truck registrations, which have now dropped in three out of the past four months. A small rise in March has been dismissed as unrepresentative by industry executives because it reflected a big sales push by one leading manufacturer.

Figures for truck sales are generally seen as advance indicators of confidence in important sectors of the economy, such as construction and retailing. "There are signs of a pick-up now," said Mr Tony Pain, sales manager for Leyland Daf Trucks. But leading truckmakers warn that the market is being distorted by uncertainty about the timing of new European noise and emission rules, due to take effect in October.

Haig Sturman, Motor Industry Correspondent

Spitfire pilots scramble again

Twenty-one Spitfires flew across central England yesterday in one of the biggest gatherings of the aircraft since the second world war. The crowd of more than 30,000 people at the Imperial War Museum's airfield about 80km north-east of London included Mr Gordon Mitchell, the 75-year-old son of Reginald Mitchell, who died soon after the first Spitfire made its first flight 60 years ago. Air Vice Marshal "Johannie" Johnson, one of the top-scoring allied pilots of the war, said at the airfield: "I am surprised at the interest, but I think the Spitfire



has become a kind of immortal thing that people feel helped gain them freedom." The Supermarine Spitfire, powered by Rolls-Royce engines, was the most famous fighter flown by the Royal Air Force in the war. Forty-seven Spitfires are believed still to exist.

Hugh Clayton, London

Boost for accountants

Accountants are to play a more central role in the financial management of the government machine following publication of a report which says that it fails to use all their skills. The report by Mr Andrew Liskierman, head of the government accountancy service, says there are "deep-seated problems" over the role of accountants and a "continuing failure to harness" what they have to offer. He recommends that the focus should move "away from accountants and towards accountancy". In the first report on accountants in government for five years he says it must be recognised that "the main role of accountants is to improve financial management".

Jim Kelly, Accountancy Correspondent

Banks to meet on failures

The Bank of England is to hold a conference of senior bankers on May 30 as part of continuing efforts to forge an international understanding on how to deal with complex cross-border rescues of companies in financial trouble. The Bank is seeking the views of bankers from Europe, the US and Japan, on extending the so-called "London approach" developed in the UK to deal with large corporate collapses. At present cross-border corporate rescues can be frustrated by a wide range of different insolvency procedures.

Jim Kelly

Directors' pay 'moving closer to performance'

By William Lewis in London

The basic pay of top directors in the UK has moved more into line with the size and complexity of the companies they run, says a report to be published today by Arthur Andersen, the accountancy firm. Directors' bonus payments are also beginning to bear more relation to corporate performance, the report shows.

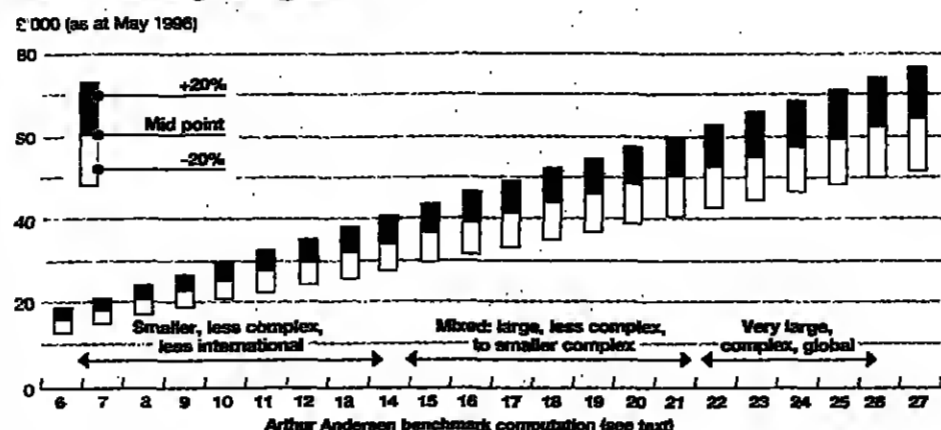
However, Arthur Andersen concludes that the average increase in 1995 for top executives - basic and bonus together - was still relatively high at 8 per cent. The report finds that most companies have moved quickly to implement several of the main findings of the Green-

bury committee's report on executive pay, published last July.

For example, 85 per cent of the companies surveyed - 40 companies, from the largest 350 public companies, which published annual reports during the period November 1995 to April 1996 - now make full disclosure of their directors' pay in line with Greenbury's recommendations.

"Boardroom pay is increasingly being determined by reference to objective factors, such as organisational size and complexity," says Mr Brian Friedman, head of Andersen's compensation and benefits practice. Andersen's findings are based on 200 of the largest 350 UK public companies.

Basic salary ranges



Arthur Andersen benchmark computation (see text)

It found that a smaller group of companies - 14 per cent against 16 per cent in 1994 - paid their top directors basic salaries which are higher than a rate that the size and complexity of the businesses they manage implies.

Arthur Andersen allocates each company a score ranging from one, for the smallest, to 27, for large international com-

panies which are also difficult to manage.

It then allocates a basic salary benchmark to each company's most senior executive. This year's survey, the second to be carried out using the so-called Arthur Andersen Complexity and Size methodology, found that 48 per cent of the basic salaries paid were in line with the model's estimate

of what they should have been, against 42 per cent in 1994.

Evidence to suggest that more of a link is developing between corporate performance and executives' bonuses includes an increase in the percentage of companies not paying executive directors a performance bonus from 21 per cent in 1994 to 27 per cent last year.

Former Barings chief faces City suspension



The Securities and Futures Authority is expected to announce today that Mr Peter Norris, the former chief executive of Barings, is to be suspended for three years from his register of directors, Nicholas Denton writes. It will also demand costs of £10,000 (£15,000). But Mr Ron Baker, one of nine former Barings executives facing an SFA ban, has refused to accept the regulator's verdict

and will today begin the process of appealing to an independent tribunal.

In a settlement with the SFA, Mr Norris has accepted that he failed to pursue a £50m discrepancy in the accounts of Mr Nick Leeson, the Singapore-based trader who eventually brought down the venerable bank.

But a statement of facts expected to be published today shows that several criticisms of Mr Norris have been dropped. The securities regulator has held back from declaring that Mr Norris is not "fit

and proper" to work in the securities industry, which would have made it difficult for Mr Norris to find further employment in the sector.

Mr Baker, the former head of Barings' financial products group and Mr Leeson's ultimate boss, plans today to deliver a 20-page statement of defence rejecting the SFA's charges against him. By this action, Mr Baker is in effect forcing a hearing by a tribunal.

"This is the first opportunity in a year that I have had a chance for judicial review," Mr Baker said. He added that the

importance of the Barings collapse for the securities industry had warranted a judicial inquiry from the start rather than the report by the Bank of England's board of banking supervision.

Mr Baker will seek a preliminary hearing with the chairman of the tribunal. The main hearing - which would typically take place before a panel of a senior judge, an SFA official and a financial expert - is not expected before October. In March, the SFA said Mr Baker had failed to act with due skill, care and diligence, and com-

mitted misconduct in failing to understand Mr Leeson's proprietary trading. It proposed to ban him for three years and charge him £10,000 in costs.

Mr Baker's defence is that the organisational confusion at Barings and Mr Leeson's fraud both came before his assumption of full control of Mr Leeson. Mr Baker said he was refusing a settlement "because the criticism is unjust and I want to clear my name."

Mr Ian Hopkins, the former head of group treasury and risk, has also rejected the SFA's charges.

Australian-born banker says he was scapegoat

By Nicholas Denton in London

Mr Ron Baker, the former Barings director who is today challenging a three-year ban by the Securities and Futures Authority, has always stood apart from his erstwhile colleagues at the failed UK investment bank.

Australian-born Mr Baker, 44, joined Barings in 1992 from Bankers Trust, the aggressive US investment bank which pioneered the derivatives business. He was from neither the corporate finance tradition of Barings Brothers, the merchant bank, nor the Far East securities broking culture of Baring Securities, the stockbroking arm.

When Barings collapsed with \$200m of losses on derivatives trading in February 1995, Mr Baker was singled out by colleagues for particular blame. This was largely because, as head of financial products group, he was the ultimate boss of Mr Nick Leeson, the Singapore-based



Ron Baker: stood apart from colleagues at Barings

trader whose unauthorised trading doomed the bank.

Being an outsider told against Mr Baker too. The merchant bankers of Baring Brothers, the patrician part of the group, described him as "Ron the Con" and revived an old Barings adage: never trust a man with a beard.

Mr Baker, in his first newspaper interview, has said

that he believes he was a convenient scapegoat. "People wanted to believe that it was a phenomenon caused by somebody from outside, someone who looked a bit different, sounded a bit different."

"It was a tragic and utterly human characteristic for people to explain things in a way that made them feel more comfortable," he said. Many of his colleagues' criticisms found their way into the report on the Barings collapse by the Bank of England's board of banking supervision. Mr Baker said the Bank was reluctant to criticise executives who remained at Barings for fear of damaging the business, resented by Internationale Nederlanden Groep, the Dutch bank. Blaming him was "an understandable commercial solution."

Mr Baker, who conceded to the investigators his lack of experience in exchange-traded equity derivatives, was blamed for believing that Mr Leeson's large reported profits were real, and for displaying poor commercial judgment.

He said the prosecutions unit of the SFA, the securities industry regulator, followed in the Bank's footsteps. It charged that Mr Baker failed to understand properly and monitor Mr Leeson's proprietary trading activity, and to ensure that staff were

properly supervised.

In his response to the SFA Mr Baker is again standing alone. Mr Ian Hopkins, former head of group treasury and risk, has refused to settle with the SFA. But, among the nine Barings executives facing an SFA ban, only Mr Baker is taking the matter to tribunal.

His defence has three main elements. First, that the apparent profitability of Mr Leeson's trading was plausible. Second, that Mr Leeson's hidden 88888 account was a bogus client account and nothing to do with Mr Baker's responsibility for house trading. Third, Mr Leeson started his fraud in July 1992, suffered large losses by November 1993, and doomed the bank by the end of 1994.

Although Mr Baker proposed Mr Leeson a bonus for 1993, he was only fully in charge of him from the start of 1995. Mr Baker's point is that he is taking blame for disorganisation which preceded his appointment.

Siemens executive warns of threat to high-tech growth

By Chris Tighe
Newcastle upon Tyne

Future expansion of the UK semiconductor industry is in jeopardy unless the shortage of suitable recruits is tackled soon, one of the sector's leading managers warned yesterday.

Mr Llew Avis, personnel director at Siemens' microchip plant under construction in north-east England, said the British government was taking the skills shortage very seriously. Creation of a National Microelectronics Institute is

being discussed, and northern England and Scotland - which together comprise the biggest concentration of semiconductor manufacturing in Europe - are competing for the project.

Since the Institute's aim would be to increase technical knowhow and skill, it is likely to give the area in which it is located a competitive advantage in attracting more microelectronics inward investment. The Korean groups LG, Daewoo and Hyundai are all known to be considering the UK for semiconductor manufacturing investment.

Mr Avis said there are enough skilled people to cope with UK semiconductor projects already under way. Those include Siemens' project, which is expected to employ 1,300 people by 1999. A second phase, still under consideration, would recruit several hundred more.

Mr Avis was personnel director of Fujitsu's European microchip plant in north-east England before he joined Siemens last November.

But, Mr Avis said, action is needed to ensure that if any more semiconductor manufacturers choose the UK, increasing the sector's overall size, the necessary skills are available. "If it gets substantially greater we are going to have to start taking some different action," he said. "Action is required by employers and by government."

More suitably qualified graduates were required, with greater specialist microelectronics knowledge, he continued.

Growth of offshore havens causes worry

Roger Taylor assesses growing pressure on favourite methods of tax avoidance

Offshore tax havens around the UK are growing very rapidly. So rapidly, indeed, that there is alarm in high places. The Inland Revenue is investigating offshore subsidiaries of UK building societies, and several have been asked detailed questions about their operations. With more than \$6bn (£9.1bn) invested in them offshore, the Inspector of Taxes is worried about the potential loss of tax revenues.

The opposition Labour party is worried, too. Mr Gordon Brown, the party's shadow chancellor of the exchequer, hit out recently at financial advisers who recommend moving money offshore to avoid the risk of paying higher taxes should Labour be elected at the coming general election.

The main offshore centres for UK investors are Luxembourg, Dublin, the capital of the Republic of Ireland; the Isle of Man off north-west England; and the Channel Islands of Jersey and Guernsey between England and France. The islands all make their own tax laws. All are growing fast. Over the past two years, deposits in Jersey have risen by 67 per cent, in the Isle of Man by 55.7 per cent, and in Luxembourg by 127 per cent.

The story is the same for investment funds. Those in Dublin, Luxembourg

and Isle of Man are increasing at about twice the growth rate of UK domestic funds.

Most fund managers, along with offshore banks and building societies, are at pains to point out that most of this business does not come from UK residents. Indeed, most are careful not to seek money actively from the UK. Mr Richard Buchanan, marketing manager of Abbey National in Jersey, says: "If you advertise in the UK for business,

etries are the most sensitive on this issue, perhaps because they can offer least in the way of legitimate tax avoidance."

Offshore accounts pay income gross. The law says the income must be declared and tax paid, so all the investor gains is a tax deferral of several months. But checking on whether people actually are declaring their gains is the Revenue's big problem.

Offshore funds, in contrast, offer several ways of avoiding tax. Roll-up funds allow investment returns to accumulate offshore, and tax is paid only when the investment is cashed in.

Despite this, many offshore fund management groups are keen to distance themselves from UK investors. Robert Fleming and Mercury Asset Management, two of the biggest UK fund managers in Luxembourg, say their offshore funds are not marketed to UK investors and are not marketed to them.

Mr Edward Morse, director of offshore sales for Flemings, adds: "We are not sucking money out of the UK into Luxembourg. We do sell a lot of products in the UK, but money does not come from UK Joe Normal. The vast majority of the money is already offshore. It could, say, be someone who

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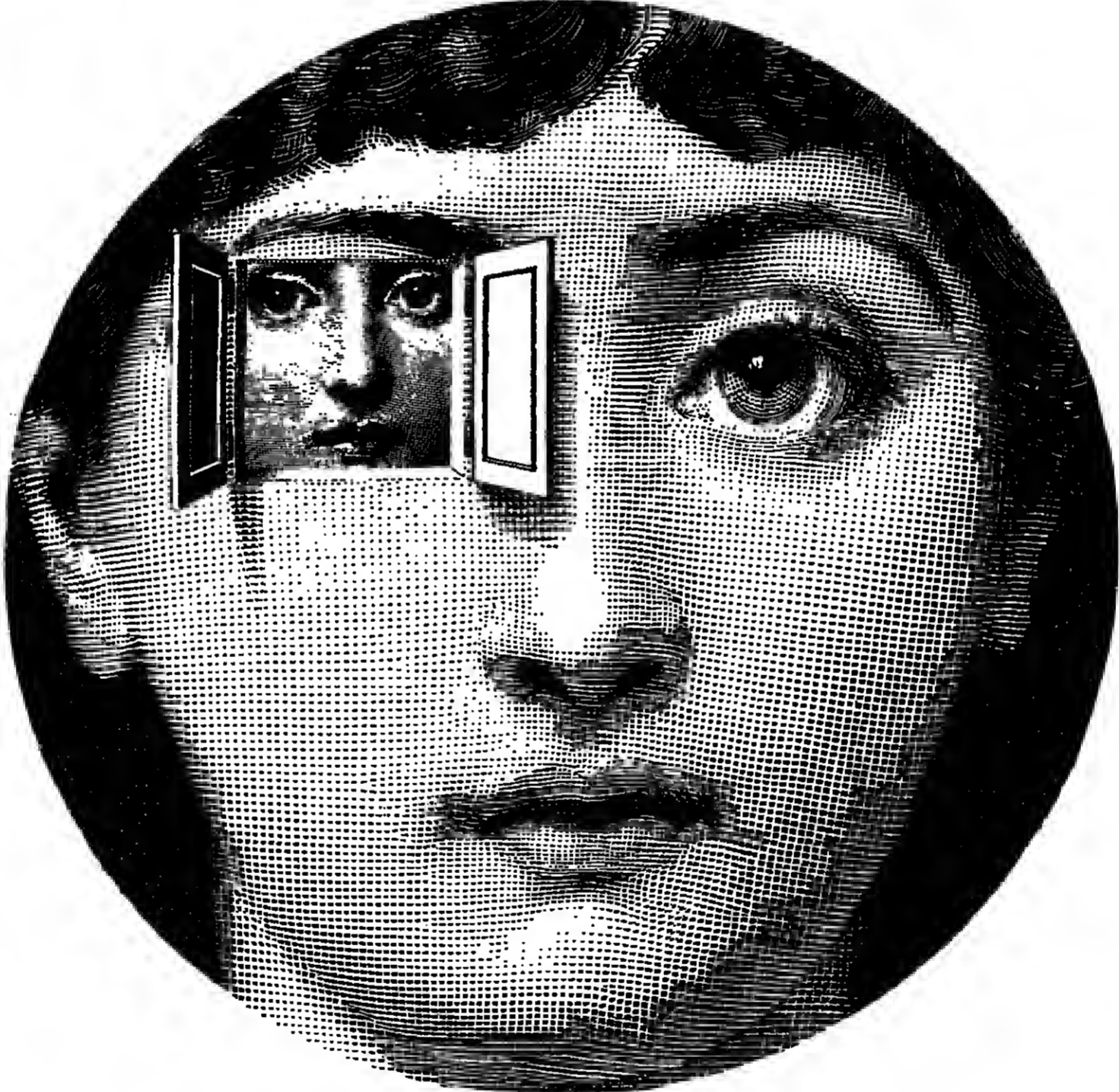
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TECHNOLOGY



BEHIND THE NET

A new epidemic of computer viruses is infecting personal computers linked to the Internet and corporate networks. It is costing businesses billions of dollars in lost computer time, disruption of business operations and eradication efforts.

The National Computer Security Association, a US industry group, estimates that costs of viruses to US companies and organisations will soar to between \$2bn and \$3bn (£1.3bn-£1.9bn) this year, up from about \$1bn last year.

Virus infections have increased almost tenfold in corporate America over the past year, according to an NCSA study published last month. The survey of 300 companies and organisations, each with 500 or more PCs, found that the likelihood of a virus infection rose from approximately one per 1,000 PCs during the first few months of 1995 to 10 infections per 1,000 PCs early this year.

Much of the increase in virus problems is attributed to a new generation of "macro virus" programs, and in particular the so-called "Concept" virus. Concept is one of about half-a-dozen macro viruses that are associated with Microsoft Word, the most widely used word-processing program. It first appeared about nine months ago and has run rampant among Word users worldwide.

Unlike other viruses, which are carried in PC programs and spread via infected floppy discs or software downloaded from network servers, macro viruses lurk in documents such as word processor or spreadsheet files.

A macro virus is a piece of self-replicating computer code written in the macro language of an application program. The macro virus masquerades as a legitimate macro - a miniature time-saving program intended to automate frequent tasks such as document formatting.

The danger lies in macros that run automatically. These include, for example, the commands to open or close a file. Once a macro virus is running, it can copy itself to other documents, delete files and create general havoc in a PC without the user's knowledge.

A PC can become infected by a macro virus simply by opening a contaminated document file which might have been transferred to the computer on a floppy disc, downloaded from a network or transferred as an attachment to an e-mail message. This makes macro viruses far more contagious than earlier types.

The Concept virus has spread "faster than any virus in history", says Peter Tippett, president of NCSA. The virus has moved ahead of almost every other virus in terms

Computer viruses linked to the Internet are costing companies time and money, says Louise Kehoe

Infectious behaviour

I'D BETTER NOT GO TO SCHOOL - I THINK I'VE PICKED UP A COMPUTER VIRUS



ROVER BEAVE

of numbers of known infections in just the past nine months.

The most troublesome finding in the NCSA study, however, is that Concept is spreading to a large extent, via e-mail. This raises a serious problem for users of the Internet, who are likely to receive documents as e-mail attachments. Innocently or otherwise, the sender may infect the recipient's computer with a virus. This is a case of truth being stranger than fiction. For more than a year, a hoax has been spreading among Internet users warning that e-mail messages titled "Good Times" contain a damaging

virus. In reality, there is no "Good Times" virus, but any e-mail message that carries an attached file must now be considered a potential source of infection.

Fortunately, Concept, and most macro viruses, do not cause serious damage to a computer. However, they produce annoying messages and cause problems with printing and saving documents. Moreover, new macro virus strains that have appeared over the past few months are more virulent.

These include Hot, a virus that deletes Word documents when they are opened; Format C, which also

deletes files; and Atom, designed to delete files on December 13.

The latest macro viruses also include two that target users of Lotus Development's Ami Pro and Word Pro word processors, according to S&S, publisher of the Dr Solomon's Virus Toolkit which detects and repairs the damage caused by viruses.

The only sure way to avoid macro virus infections is to use the latest anti-virus scanning software, according to the US Department of Energy's Computer Incident Advisory Capability group.

"Documents are much more mobile than executable files in an organisation, passing from machine to machine as different people write or edit them," the group notes. "The vulnerability of systems to this type of virus is high, because most users are not in the habit of scanning documents."

Until recently, most anti-virus products could not detect and prevent the dissemination of macro viruses. However, Microsoft now offers a scanner program that detects Word macro viruses. The latest version of the scanner software can be downloaded free of charge from Microsoft's Internet Web site: <http://www.microsoft.com/msoffice/freesoft/msanord/download/mutool/mutool20.exe>.

Unfortunately, the macro virus scanning process is cumbersome since it involves scanning every new document loaded on to a computer. "The virus war is being fought with tanks and artillery, but the enemy is arriving by air and parachuting behind the lines," says Daniel Chiang, president of Trend Micro, which recently launched "Virus Wall" software.

Similar in concept to "Firewall" software designed to exclude hackers, the Virus Wall is designed to prevent viruses entering a corporate network by scanning all incoming traffic.

"The way to prevent these new attacks from disrupting productivity, or worse, destroying data, is constant, automatic scanning for all strains of the virus," says Chris Risley, chief executive of On Technology, which has developed another macro virus antidote.

For organisations that find themselves already infected with a macro virus, however, eradication can be time-consuming and costly. Every document file must be checked and rechecked to ensure that no copies remain.

The NCSA study found that infections were typically found in more than 100 PCs and five or more servers at a single site. On average, businesses spent 41 hours, 10 person-days of work and more than \$8,000 to deal with each incident of virus infections. The costs are often far higher, however, if valuable files are damaged or destroyed.

Software doctor's growing patient list

Taiwan-based Trend is a leader in the race to produce new data defence systems, says Laura Tyson

The company that cracked the infamous Michelangelo virus which terrorised computer users in the early 1990s has developed software that can detect and kill viruses infecting files as they are taken off the Internet.

As computer hackers around the globe seek to capitalise on the greatly expanded opportunities for pranks and sabotage offered by the Internet, makers and users of computers will need to build up defences against viruses - programs deliberately created to destroy computer data or systems.

Taiwan-based Trend Micro Devices, one of the world's leading producers of anti-virus software and network security systems, is marketing software that can scan for both known and unknown strains of viruses in files transmitted through e-mail, bulletin-board systems and other on-line applications or downloaded from the Net or Web sites.

"With the Internet, viruses are being carried around the world much more quickly and the potential impact can be far greater," says Steve Chang, Trend's chairman and founder.

"In the past there used to be a time-lag of several months before a virus from the US would turn up in Asia, for example. But starting last year, with Internet use really taking off, viruses are now being transmitted everywhere instantly."

Some competitors claim similar "real-time" detection capabilities but do not accommodate special format or encoded files, which Trend's product automatically converts as it scans, says Lin Shih-chih, a technician.

The introduction of Microsoft's Windows 95, a new operating system launched last year and expected to sell 50m copies worldwide, is likely to increase problems with viruses because Windows 95 has a more direct interface with the Net than other systems.

Trend has developed anti-virus software specially designed for Windows 95, which has some

resistance to infection but apparently not enough. "Out of 200 live viruses we tested on Windows 95, 88 per cent survived. That is pretty scary for the user but I'm looking good," says the exuberant Chang.

"Viruses are definitely going to be a growing problem and an added source of revenue for anti-virus software-makers," says J.N. Menon, a Singapore-based software industry analyst at Dataquest. "Internet use is spreading like wildfire, and with Windows 95 the need for anti-virus protection is going to go up because of this external threat."

Touchstone, a US software retailer, is distributing the new software, PC-cillin 95, in the US under the Touchstone name.

angels" to buy the source code technology. Soon afterwards he was faced with piracy in Taiwan and in China. "It was such a big investment for us and we had to protect it, so we were forced to invent a security key," he says.

In 1987 he sold the security key concept to a US company for \$120,000. "From this I learned that not only does your technology have to be unique and useful, but you have to leverage it," he says.

With the proceeds Chang moved to Los Angeles and founded Trend in 1988 as a software and data security company. The following year, one of his software engineers brought him a floppy disc containing a virus and showed how it could infect one file after another.

"I could see immediately that this represented a real threat to the operating systems of personal computers and network systems," says Chang. "So I just went on my instinct. I didn't know the market at all. As soon as I saw it I just said let's do it."

When Michelangelo struck in 1991, Trend got its first break and sales tripled. Then the company developed the first server-based anti-virus software - before that it had been client-based - but lacked the resources and reputation necessary to sell to leading US companies. The new software enabled users to scan for and eliminate viruses at the centre of a network instead of simply at individual computers.

Lured back to Taiwan by the Taiwan government and the prospect of greater returns, Trend in 1994 moved its company registration from the US to Taiwan and plans to be the first software company to list on the Taiwan Stock Exchange.

It now has a computer virus bank with more than 5,000 live strains with names such as "pingpong", "ambulman", "stanford", "crumble" and "eggflip". Some 200 new ones are created each month. The former eastern bloc countries, especially Bulgaria, are a rapidly growing source of viruses, with about 80 per cent originating from the region, Chang estimates.

There used to be a time-lag of several months before a virus from the US would turn up in Asia. With Internet, viruses are now being transmitted everywhere instantly

Change expects Windows 95 to generate \$1m (£7.2m) in sales for Trend in the year after launch. While Taiwan's pre-eminence in computer hardware production is well-known, the country's software industry can hardly be described as nascent as it focuses mainly on localisation of foreign products.

Trend has expanded from just seven employees four years ago to 100 today, including 40 engineers. "Curiosity is what really got me into it," says Chang. "Why are these people writing viruses when there is no profit? How does a virus spread?"

He launched his first company, which used a localisation software to convert databases into Chinese-language format, in 1984 with \$100,000 scraped together from family, friends and "business

LIFFE traders set the pace

Following the success of last year's Savoy Classic, LIFFE would like to thank the sponsors and supporters of this year's charity racing dinner, the Dorchester Charity Stakes '96, held on 2 May 1996.

A total of **£172,000** was raised which will benefit The Starlight Foundation, British Brain & Spine Foundation, Winged Fellowship Trust and The Living Paintings Trust.



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Pursuant to a decision of the Extraordinary General Meeting of shareholders held on March 15, 1996, the liquidation of Fidelity Discovery Fund has been closed.

Liquidation proceeds not collected by the shareholders will be transferred to the Caisse des Consignations to be held for the benefit of the persons entitled thereto.

The records of the Company are deposited with Fidelity Investments (Luxembourg) S.A. for a period of 5 years.

The Liquidator



LEGAL NOTICES

In the High Court of Justice, No 1022/1996
COMPANIES COURT
IN THE MATTER OF EPITAMAL PROPERTIES INTERNATIONAL LIMITED AND IN THE MATTER OF THE COMPANIES ACT 1985
NOTICE IS HEREBY GIVEN that a Petition was on the 17th day of April 1996 presented by Her Majesty's High Court of Justice for the confirmation of the reduction of the share capital of the above named Company from £1,000,000 to £100,000.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Companies Court Registrar sitting at the Royal Courts of Justice, Strand, London WC2A 2LL, on Wednesday 15th May 1996.

ANY creditor or shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of capital should appear at one hour of the hearing in person or by Counsel on that date.

A copy of the said Petition will be furnished in any such person requiring the same by the undersigned Solicitors on payment of the regulated charge for the same.

Dated the 3rd day of May 1996
Rivers & Mann
20 Blue Square Lane
London EC4V 3DF
Solicitors for the said Company

In the High Court of Justice, No 9022/1996
COMPANIES COURT
IN THE MATTER OF RPS GROUP PLC
AND IN THE MATTER OF THE COMPANIES ACT 1985
NOTICE IS HEREBY GIVEN that a Petition was on the 17th day of April 1996 presented to Her Majesty's High Court for the confirmation of the above named Company's share premium account.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Companies Court Registrar sitting at the Royal Courts of Justice, Strand, London WC2A 2LL, on Wednesday, 15th May 1996 at 10.30 am.

Any creditor or shareholder of the Company desiring to oppose the making of an Order for the confirmation of the said cancellation of share premium account should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished in any such person requiring the same by the undersigned Solicitors on payment of the regulated charge for the same.

Dated this 3rd day of April 1996
Maurice Holtzman
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ARTS



Portrait of Pope Innocent X by Velazquez; and Francis Bacon's 1949 'Head VI'

Two masters pay their papal dues

William Packer discusses the popes painted by Velazquez and Francis Bacon

The portrait of Pope Innocent X by Velazquez is one of the greatest psychological portraits ever painted. The pope looks out at us, fixing us with his implacable gaze, daring any challenge to his God-given authority. It has been the star item in Room 30 of the National Gallery, London, as part of a selection of great paintings on loan from the Doria Pamphilj Gallery in Rome.

The selection includes works by Caravaggio, Raphael, Claude and Guercino but even in this distinguished company, Velazquez's pope, all white and crimson silk in his gilt-and-red-plush chair, fills the canvas, as he fills any room it occupies, with his powerful and brooding presence.

The portrait fascinated Francis Bacon. The story is that he knew it only in reproduction, even though he spent some time in Rome. Was he, then, afraid of its almost palpable and troubling power? Who can say? Some find in it a strong, coincidental-like-

ness to Bacon's own hated and sadistic father, who had him whipped in public by his groom.

The fact is that Bacon first adopted the ambiguous image of a caped prelate in 1949, boxed as though within the notional space commanded by a chair. The top of the head is cut off, the mouth open and screaming in direct quotation of the famous image from Eisenstein's film, *The Battleship Potemkin*. Screaming or otherwise, in versions large and small, the idea and image continued to preoccupy him, off and on, for nearly 20 years.

Four of these paintings are known to have remained in England, in public and private hands. Two are early in the sequence, that small first screamer of 1949, and a larger, more fully if loosely-stated and rather thoughtful Pope, clearly worked from the original, though rather wonky and off-centre, dating from 1951.

Both are low-toned, grey and purple, which suggests the black-and-white reference available at that time. The other two are from

1961 and 1965, the first rather modish in its flat and schematised green throne against a dark background and fluid working of the pink and crimson pope, the other richly expressionist and yet closest of them all to the original in colour and pose.

The opportunity has now been taken to hang them with their inspiring original for the final three weeks of its stay. This proves to be a bold and successful stroke. As with the paintings by Lucian Freud that were hung within the Dulwich Collection the year before last, to compare is not to compete. Here is no question of better or worse, but only of distinction and connection.

What is made clear is that the Bacons hold their own in the company, different as they are and of their own time, but part of that continuum of practice that brings artists together across the ages.

Once the imagery is accepted, as with all good painting, they bring us back to the surface and the stuff of the paint itself as the artist has laid it

on the surface: Bacon delicate for all his urgency and impulsiveness; Velazquez so soft and swift of touch, so economical and exact.

There is a passage under the nearer arm of Velazquez's pope, partly in shadow, where the white surplice, with its pleats and fringe of lace, falls across his thigh and round the pillar of the chair, strokes of white on white on white - as inventive, radical and minimal a piece of painting as one could ever see.

Over in Room 4, more debate, if not controversy, as Holbein's huge double-portrait, *The Ambassadors*, returns to view after its lengthy restoration. Should such things ever be cleaned, let alone restored? It seems a matter of common sense in the first instance to prevent deterioration; and if there is extraneous matter on the surface, it seems not unreasonable to remove it. Is previous restoration thus extraneous? That depends on how well it was done, but where possible it is as well to get down to the original surface to determine the extent of any

loss. No restoration should ever be irreversible. And if what was lost is known and can be replaced, replace it. This case is a wonderful vindication of such a policy, and a personal triumph for the gallery's chief restorer, Martin Wyld. The luck was that after 19th-century work was removed, the principle damage was low down on the left, and along the cracks between the ten oak planks that make up the panel - which it was Holbein's compositional trick to dodge where possible.

The colours are now rich and fresh, but never gaudy, and what has come back is all the subtle shadowy space beyond the two men, beneath the bench and on the floor, and the skull now reads as the proper skull it was not before.

Wonderful.

Velazquez and Bacon - paintings of Popes: National Gallery, Trafalgar Square WC2, until May 18; Holbein's *The Ambassadors* Restored: on permanent view.

Keeping in tune with the public

Antony Thorncroft talks to Nicholas Kenyon

Nicholas Kenyon looks remarkably relaxed for "the man who single handedly is destroying western civilisation." Three years ago he took over as controller of Radio 3, and roused the vociferous fury of the old guard by some gentle lightening up of BBC radio's arts channel. Last week he confronted an even more fanatical cult, the Proms audience, by unveiling his first programme as director.

There was little in it to mount the barricades. "I wanted to do some things differently, but the Proms has such a fabulous tradition that it is a case of development not revolution. That is not to say there is nothing more to be done."

Kenyon best displays his caution by preserving the Last Night shenanigans: "It would be more than my life's work to change it." But unlike his predecessor, John Drummond, who tried to introduce some decorum to the proceedings by banning hooters and raising the musical seriousness of the occasion, Kenyon is all in favour of a little jollity. "There should be a spirit of genuine celebration at the end of the festival".

After last year's orgy of new music Kenyon is also concentrating on works never heard at the Proms before - but pieces by unfashionable names like Mozart, Haydn, Bach and Handel. All through the programme there are minor innovations: a Junior Prom for schoolchildren; a linked chamber music series; a concert of Broadway songs - set against the fixed traditions: a Viennese night; great visiting orchestras (from Berlin, Chicago, New York); curiosities, like concert performances of Beethoven's discarded opera *Leonora* and Kurt Weill's *The Silver Lake*.

The aim is to make every Prom an event, and although there are still routine concerts among the record number of 72 Proms, the loyal Promgoers should ensure that the box office target is hit. Amid talk of an ageing and declining audience for classical music in London - and elsewhere - the Proms defy the pessimists: last year, with a challenging programme, it attracted 81 per cent capacity. This year it should do even better.

Fixing the Proms has not taken Kenyon's eye off his day job - running Radio 3. Indeed one of his innovations is to link the Proms even closer to the network, ensuring that works by the *Composer of the Week*, and performances by the *Artist of the Week*, are featured at the Proms. The Proms will also get additional Radio 3 coverage through more news and reviews on air.

After all, this biggest music festival in the world attracts new listeners to Radio 3 - 1m tune in each week, an astonishingly high figure when set against the channel's average weekly audience of 26m, an audience which shows no signs of flagging, despite the competition of Classic fm.

Kenyon has succeeded in facing down his critics. Even

his most controversial move, to give the key *Morning Collection* slot to Paul Gambaccini, not only a former pop DJ but also an American, seems to be paying off and attracting new listeners. "It was a totally right decision. Radio 3 can become a little broader without throwing away everything".

Kenyon sees his job as maintaining "a real balance between the expectations of the existing audience and the need to make ourselves enjoyable to a new audience." However, while not giving an inch in public, Kenyon has backtracked on some of his original changes. The chatty presenters and the intrusive information which so upset traditional listeners to the key morning programme *On Air* and the early evening *In Tune* have been curbed. "The presentation style has got to settle down".

To ensure consistency, within the next month a new presentation format will be unveiled for the channel which, in theory, will enable it to speak with a single voice. Kenyon hopes this will combine "warmth with authority. The announcers will speak from a position of knowledge and enthusiasm." He has also accepted that Radio 3 caters for a wide range of niche audiences: he



Nicholas Kenyon: his first Prom season

speaks warmly of such hoary favourites as *Choral Evensong*, and he is prepared to look again at the ever-festering row over the paucity of jazz coverage.

Kenyon is starting to speak with authority. He is set for a long haul. Although his Radio 3 job comes up for renewal in 1997, he will be responsible for the Proms until 2000: it would be remarkable if he did not continue in both posts until the millennium. Having weeded out some of the elitist approach which deterred new listeners, Kenyon is now building bridges with the traditional audience.

They should welcome his latest achievements. Schools broadcasts, which commanded the wavelength in the afternoon, have finally been cast off, and last weekend Radio 3 became a 24 hour channel. The programming after midnight may not sound too enthralling - concerts borrowed from European Community classical music stations - but it suggests that Kenyon, and Radio 3, are in an expansionary, even visionary, mood.

Unlike Cambridge May Week, the Maggio Musicale in Florence is partially true to its title. It does at least start in May, even if the *Maggio* continues to the end of June and has now virtually been absorbed into a round-the-year season of events of which it is a barely distinguishable part.

This year's programme offers no particular theme or focus of attention, more a collection of bigger names than are found in the winter or summer schedules. Two of them - the producers of the two new opera productions - happen to be British, but that probably reflects a general trend towards acceptance in Europe that has been growing for some years. The casts and performers in concert are as international as anywhere else.

For the opening night on May 2 the festival offered a new production of Mozart's

Richard Fairman on the opening of the Maggio Musicale in Florence

The calm before the storm

Idomeneo, produced by Jonathan Miller. It was a safe choice, as Miller has already been responsible for the Mozart/Da Ponte trilogy in Florence (one opera a year between 1990 and 1992) and his way with the composer must be a known quantity. In a country where good singing still counts for more than production values this is easy to understand. Whether they expected a production quite as predictable as this is another matter.

No surprises were sprung. No risks were taken. Watching a performance as deadeningly uneventful as this, it is easy to become oblivious to the life-and-death issues being enacted on stage and find oneself listening to the music as if

it is a piano concerto or a string quartet. There was no emotional energy emanating from these characters at all. They looked and moved more like two-dimensional illustrations from a dusty tome on operatic history.

The programme-book listed Miller as co-designer with Giles Cadle, and between them they came up with a fashionably clean-cut set, all in white. Its sleek lines and polished surfaces were at one with the musical performance, which showed no more sign of wanting to explore below the surface than had Miller with the drama. Semyon Bychkov has taken on board the faster speeds and snappy rhythms of the authentic brigade, but uses

them merely to produce an updated version of "Dresden china" Mozart, every bit as soulless as the original.

It takes a certain amount of will-power for the singers to overcome restraints like these, but two at Saturday's performance did. Nuccia Focile sang *Ilia* with feeling and spontaneity, as though she really meant what she sang. Hillevi Martinpelto is not the wild creature that Elettra should be, but sings the long Act 2 scene with a purity of voice and style unequalled by anybody else today. The central relationship between *Idomeneo* and his son *Idamante* went for little, despite Deon van der Walt's scrupulous coloratura semiquavers and Vesselina

Kasarova's elegant phrasing. Who would have noticed they came within a knife edge of human sacrifice?

There is plenty of that in Strauss's *Elektra* too and I was sorely tempted to add another body or two to the pile after Sunday's performance in Florence. While the *Idomeneo* never had much chance of success, the *Elektra* was a potentially tremendous evening ruined by large-scale, and surely unnecessary, amplification. It was not clear whether somebody thought the Teatro Comunale acoustics were not good enough or if a set so deep caused them problems. Either way the result seemed to me hugely regrettable. The production can only

have fitted better at the Salzburg Easter Festival, where it originated. Here, as the singers roamed around the set, they became huge, disembodied voices, which echoed as if they were being relayed from the Duomo up the road. Deborah Polaski's *Elektra* and Reinier Goldberg's *Aegleth* simply do not sound like this in real life, as I know from hearing them a fortnight ago in Paris. Nor were Karita Mattila's Chrysothemis and Marjana Lipovsek's *Klytemnestra* blown out of proportion any less.

So, to report that they all seemed in good voice and that Claudio Abbado and the Berlin Philharmonic gave a performance of thrilling concentration and dramatic intensity, played to perfection, is all the more painful. How could Abbado, after his highly-publicised stand against his record company over artistic integrity, have agreed to a sell-out like this?

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-5730573
● Radio Kamerorkest: with conductor Frans Bruggen and the Groot Omroeporkest perform Beethoven's *Die Geschöpfe des Prometheus*, Op.43 and Haydn's *Theresienmesse*. Soloists include soprano Regina Nathan, alto Monica Groop, tenor Mark Padmore and bass Nanco de Vries; 8pm; May 11

BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Berliner Sinfonie-Orchester: with conductor Yutaka Sado and pianist Babette Hierholzer perform works by Brahms and R. Schumann; 8pm; May 10

Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Mass in B minor; by J.S. Bach.

Performed by the Berliner Konzert Chor and the Berlin Sinfonietta with conductor Matthias Elger. Soloists include M. Deubner, B. Bartosz, N. Gleesocke and M. Hoff; 8pm; May 9

BONN

CONCERT
König-Philharmonie Tel: 49-228-9171200
● Wisdom and Compassion. The Sacred Art of Tibet: this exhibition focuses on the traditional themes of the art of Tibetan Buddhism and presents the important stylistic developments from the 9th to the 19th century. On display are 190 objects of sacred art, mainly scroll-paintings (tangka) and ornate metal sculptures, but also application work and tapestries as well as wooden, ivory and stone sculptures with a strong religious expression; from May 10 to Aug 25

COLOGNE

CONCERT
König-Philharmonie Tel: 49-221-2040820
● MDR-Sinfonieorchester Leipzig: with conductor Jan Latham-Koenig and pianist Philippe Entremont

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DANCE
Das TAT im Bockenheimer Depot Tel: 49-69-21237668
● I was Real - Documents: a choreography by Saburo

perform works by Gershwin and Weill; 8pm; May 9

DETROIT

EXHIBITION
The Detroit Institute of Arts Tel: 1-313-833-7963
● Treasures of Venice: Paintings from the Museum of Fine Arts, Budapest: exhibition of 55 works from Venetian artists such as Bernardo Bellotto, Canaletto, Paolo Veronese, Giorgione, Titian, Tintoretto and others. The exhibits include paintings depicting religious and mythological subjects. 18th-century Venetian landscapes and a selection of portraits; to May 12

FLORENCE

CONCERT
Teatro Comunale Tel: 39-55-211158
● Orchestra del Maggio Musicale Fiorentino: with conductor Semyon Bychkov perform works by Beethoven and Haydn; 8pm; May 10, 11

NEW YORK

CONCERT
Avery Fisher Hall Tel: 1-212-875-5030
● American Symphony Orchestra: with conductor Leon Botstein perform works by Weill, Schreker and Hindemith; 8pm; May 10

Teshigahara to music by Hindemith, performed by Karas. Soloists include Saburo Teshigahara, Allison Brown, Satou Choko and Emilio Greco; 8.30pm; from May 8 to May 11

LONDON

CONCERT
Wigmore Hall Tel: 44-171-8352141
● Felicity Lott: accompanied by pianist Graham Johnson. The soprano performs songs by Fauré, Barber and Poulenc; 8pm; May 9
● Nobuko Imai, Leonidas Kavakos and Oystein Birkeland: the viola-player, violinist and cellist perform works by Beethoven, Ravel and Lutoslawski; 8pm; May 8

EXHIBITION
Barbican Art Gallery Tel: 44-171-6384141
● Eve Arnold: In Retrospect/Derek Jarman: A Portrait: two exhibitions shown at the same time. Eve Arnold: In Retrospect covers the life's work to date of photographer Eve Arnold, who for more than four decades has served as witness through camera and words to many of the major figures and events of the latter half of the 20th century.

SALZBURG

EXHIBITION
Rupertinum - Salzburg Landessammlungen Tel: 43-662-80422336
● Marc Chagall. Die Radierungen zur Bibel 1930 bis 1957: exhibition of a series of 105 illustrations by Chagall to the Bible. The etchings were created in the years 1931-1939 and 1952-1956; to May 12

JAZZ & BLUES

Carnegie Hall Tel: 1-212-247-7800
● Richard Stoltzman: performance by the clarinetist, featuring Bill Douglas on keyboard and Eddie Gomez on bass. The programme includes works by Ornette Coleman, Thelonious Monk and Duke Ellington; 8pm; May 10

PARIS

CONCERT
Salle Gaveau Tel: 33-1 49 59 05 07
● Catherine Marchese and Emile Nacourff: the bassoonist and the pianist perform works by R. Schumann, Satie, Nacourff, Fauré, Saint-Saëns, Francaix, Petit and Boulanger; 8.30pm; May 8

ZURICH

CONCERT
Musikverein Tel: 43-1-5058881
● Robert Lehrbaumer: the pianist performs works by Brahms, Chopin, Liszt, Ravel and Schubert; 7.30pm; May 10
● Wiener Symphoniker: with conductor Mariss Jansons and cellist Heinrich Schiff perform works by Franck, Tchaikovsky and Stravinsky; 7.30pm; May 8, 9

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43-662-80422336
● Marc Chagall. Die Radierungen zur Bibel 1930 bis 1957: exhibition of a series of 105 illustrations by Chagall to the Bible. The etchings were created in the years 1931-1939 and 1952-1956; to May 12

VIENNA

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● Wiener Symphoniker: with conductor Mariss Jansons and cellist Heinrich Schiff perform works by Franck, Tchaikovsky and Stravinsky; 7.30pm; May 8, 9

ZURICH

OPERA
Opernhaus Zürich Tel: 41-1-268 6668
● Schiefes Brüder: by Will. Conducted by Manfred Honeck and performed by the Oper Zürich. Soloists include Liliana Niculescu, Elizabeth Magnuson and Roberto Sacca; 7.30pm; May 8, 10, 12 (8pm)

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Martin Wolf

How the west failed Russia

While some eastern European states are now on the way to rapid economic growth, Moscow's repeated efforts at stabilisation have demoralised the population

Who has lost Russia? Of the possible outcomes of the presidential election due on June 16, only one - a clean victory by Mr Boris Yeltsin - would make it easy to avoid this question. If the Communist, Mr Gennady Zyuganov, were to win, or if the election were cancelled, or Mr Yeltsin were to triumph by too palpable a manipulation of the poll, the opportunity for Russia to become a normal democracy with a normal market economy would, for now, be lost.

At best, relations between Russia and the west would become more difficult, at worst, the world would have to cope with a Russia more unstable and perhaps as disruptive as in Soviet days. If so, did the west fail Russia? Or were hopes for rapid reform always illusions?

The systematic divergence between what has happened in central and eastern Europe on the one hand, and the former Soviet Union on the other, is startling. Poland had two years of sharply falling real gross domestic product in the first phase of its transition. But since then it has enjoyed a strong recovery, with rates of economic growth of at least 6 per cent in 1994, 1995 and, as forecast by the European Bank for Reconstruction and Development, 1996.

While Poland is entering the promised land of rapid growth, Russia can but glimpse it in the distance. The EBRD forecasts its GDP in 1996 to be 44 per cent lower than in 1989, after six years of decline. But even this dire performance is better than that of Belarus and Ukraine.

The swift reformers of central and eastern Europe - the Czech and Slovak Republics, Hungary, Poland and Slovenia - have managed to raise life expectancies for both men and women since 1989. In Russia, by contrast, male life expectancy collapsed, from 65 in 1989 to 57 in 1993. There can be no better indicator of the stresses that have made Mr Yeltsin so unpopular.

The decisive difference

between the successful and unsuccessful reformers has been stabilisation. No market economy can emerge under hyper-inflation - or even very high and variable inflation. As William Easterly of the World Bank argues in the latest Economic Policy, stabilisation of high inflation has often led to immediate economic growth.

Unfortunately, while Poland needed just the one successful stabilisation effort, in 1990, Russia is on its fourth, as is pointed out by Professor Robert Skidelsky and Liam Halligan. Inflation has been brought down - but too slowly. Between the end of 1990 and 1995, the Russian price level rose 3,900 times and inflation has been above 100 per cent in every year.

High inflation is a symptom of a state's collapse, but also, as Professor Jeffrey Sachs of Harvard University has noted on several occasions, also a cause. Speculators and criminals flourish, while long-term investors and the law-abiding despair. Russia, despite real successes, notably in its early efforts at mass privatisation, shows evidence of this spiral into political illegitimacy and social demoralisation.

As each successive effort at stabilisation failed, Mr Yeltsin had to throw another reformer off the back of his sledge - Mr Yegor Gaidar, then acting

prime minister, in December 1992; Mr Boris Fedorov, finance minister, in January 1994; and Mr Anatoly Chubais, first deputy prime minister, in January 1995. As Mr Yeltsin has relied increasingly on members of the old power elite, they, in turn, have done what comes naturally: while the vast mass of the Russian people have lost almost everything they had, a tiny group has exploited opportunities afforded by their privileged status to seize huge unearned fortunes. The former Soviet Union has become a heavily armed Brazil. Unfortunately, as in Brazil, Russia's present degree of inequality is likely to prove incompatible with stable democracy.

Nothing is easier than explaining why Russia has found the transition vastly more difficult than Poland: Russians do not remember a market economy, while older Poles do; the Russians collectivised agriculture, while Poland retained an independent peasantry; Russians had only amoral Communism, while Poles had Catholicism; Russians think themselves heirs to a unique civilisation, while Poland aspires to be western; Russians had rule by former apparatchiks, while Poland - with Solidarity - initially had a clean break with the past; and Russians lost

empire and ideology, while Poles found freedom. Furthermore, Poland's economy was far less militarised than Russia's. It was also less dependent on trade with other communist countries than were the republics of the former Soviet Union, including Russia, on one another.

All these explanations are persuasive. But history is full of events deemed implausible in advance and inevitable in retrospect. Anybody who argued, in 1955, that the world's most successful developing economies would be Hong Kong, Singapore, South Korea and Taiwan would have been thought mad. For that matter, Poland's jump to the market was widely condemned at the time as unwise or impossible.

Reforming Russia was bound to be more difficult than for most countries outside the former Soviet Union. It was also more important. The collapse of the Soviet Union presented a danger and a great opportunity. Russia needed imaginative help to shore up its extraordinarily fragile state through an unprecedented transformation. But the west's role in the failed stabilisation of 1992 was grossly inadequate.

What was most needed was a few years of non-inflationary financing of the collapsing

budget of the Russian state. Instead, the International Monetary Fund was left on its own, while western governments, to the extent they thought about Russia at all, were obsessed with who would serve the Soviet Union's external debt. The reality was, of course, to be nobody.

To those who would argue that the money was either unavailable or would have been wasted, the answer is simple: between 1947 and 1990, the west spent over 10 trillion dollars in today's terms on defending itself against the former Soviet Union. If things have indeed gone irreparably wrong, it may be forced to spend comparable sums again.

Against that background, worries about the possibility of wasting the odd few tens of billions were risible. Who knows what would have happened if Mr Yeltsin and Mr Gaidar had been able to bring inflation down to an annual rate of, say, 50 per cent, by the end of 1992? Maybe a Communist would still be elected next month, but he would inherit a success, rather than an apparent failure.

Bordering on Europe in the west, the lands of Islam in the south and China in the east, Russia is the heartland of Eurasia. The greatest hopes are attached to online technologies. They are seen as the best way to increase the number of people in post-school education because of the scope they offer to attract those who cannot attend formal courses, through "distance learning". This allows students to be taught through their personal computer screens, connected via the telephone network to colleges and universities.

American universities were among the first institutions to recognise the technology's possibilities. In the UK, higher education has similarly been in the vanguard of introducing online technology, with the introduction three years ago of the new SuperANET network. This allowed advanced researchers to communicate on-line with detailed multimedia images. Medical students can

Politicians are putting too much faith in the magic of the Internet, argues John Authers

Education's hopes fall through the Net

Are politicians hoping for too much from the Internet, the global network linking businesses, universities and individual computer users through telephone lines? Particularly in education, the new online technology is now carrying a burden of expectation which could prove far too heavy.

The ferment is most obvious in schools, where last week both the UK's main political parties attempted to establish their educational credentials by unveiling plans to shower schools with extra computer hardware and link them to the Internet.

This follows a pattern already well-established by the private sector in the US, where Microsoft and America Online, respectively the world's largest software house and Internet provider, both offered free Internet equipment to schools - an offer which in Microsoft's case was taken up by more than 5,000 institutions.

Experiments have already shown that the Internet and video-conferencing technology can be used to improve school education in remote areas such as the Scottish islands and the Australian outback. But it is in higher and further education that the greatest hopes are attached to online technologies. They are seen as the best way to increase the number of people in post-school education because of the scope they offer to attract those who cannot attend formal courses, through "distance learning". This allows students to be taught through their personal computer screens, connected via the telephone network to colleges and universities.

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use it to watch surgeons perform operations "live", while molecular chemists can transmit complex diagrams which can be instantaneously compared with the results of other researchers.

Online technology is now an established part of the infrastructure of British universities. For example, Nottingham University has 4,000 Internet terminals on its campus, capacity that would allow each of the 12,000 students to spend eight hours a day online.

The inquiry chaired by Sir Ron Dearing into the future of universities plans to devote much of its time to the possibilities offered by a greater use of online technology. Labour meanwhile, is building plans for a new online University for Industry, which would deliver training courses directly to the workplace, using the Internet.

The success of the Open University, the UK organisation that uses radio and television for teaching, suggests there is a market for distance learning in higher education. During this academic year, the number of its students who have a directly interactive modern link with the university has risen from 5,000 to 16,000.

But, as officials at the Open University concede, its students tend to be far more motivated than the average, taking courses in their spare time.

Nottingham University has 4,000 terminals on campus, capacity that would allow each of the 12,000 students to spend eight hours a day on-line

They are also wealthier than the average student - 74 per cent are in full-time employment.

It is doubtful if the method which serves highly motivated adults will be as successful in reaching the two-thirds of school leavers who do not go on to university now. These less motivated students are those likely to find it hardest to learn without the encouragement and individual attention given in traditional colleges and universities.

"It would be naive to think that all the expansion is going to be done through distance learning," says Mr Martin Gaskell, principal of Nene College, Northampton, a higher education college seeking university status. "Many of those new students will need close tutorial support face to face."

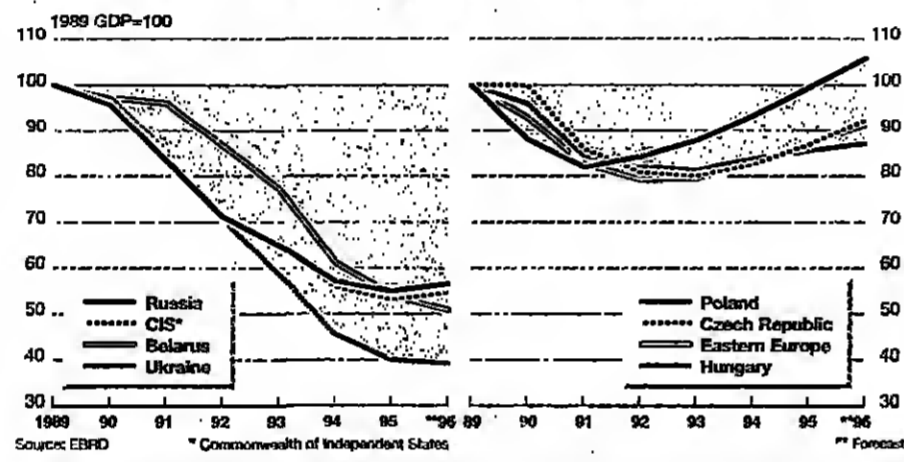
In the US and the UK online technology in universities is used to help researchers co-operate and to facilitate communication between students and tutors.

Nottingham University, one of the UK's most successful universities, sends up-to-date medical information to universities in Uganda which previously relied on textbooks published in the 1950s. Online technology performs such tasks successfully. But it is not necessarily helpful in reaching out to potential students among school-leavers; if anything, it makes the universities more exclusive.

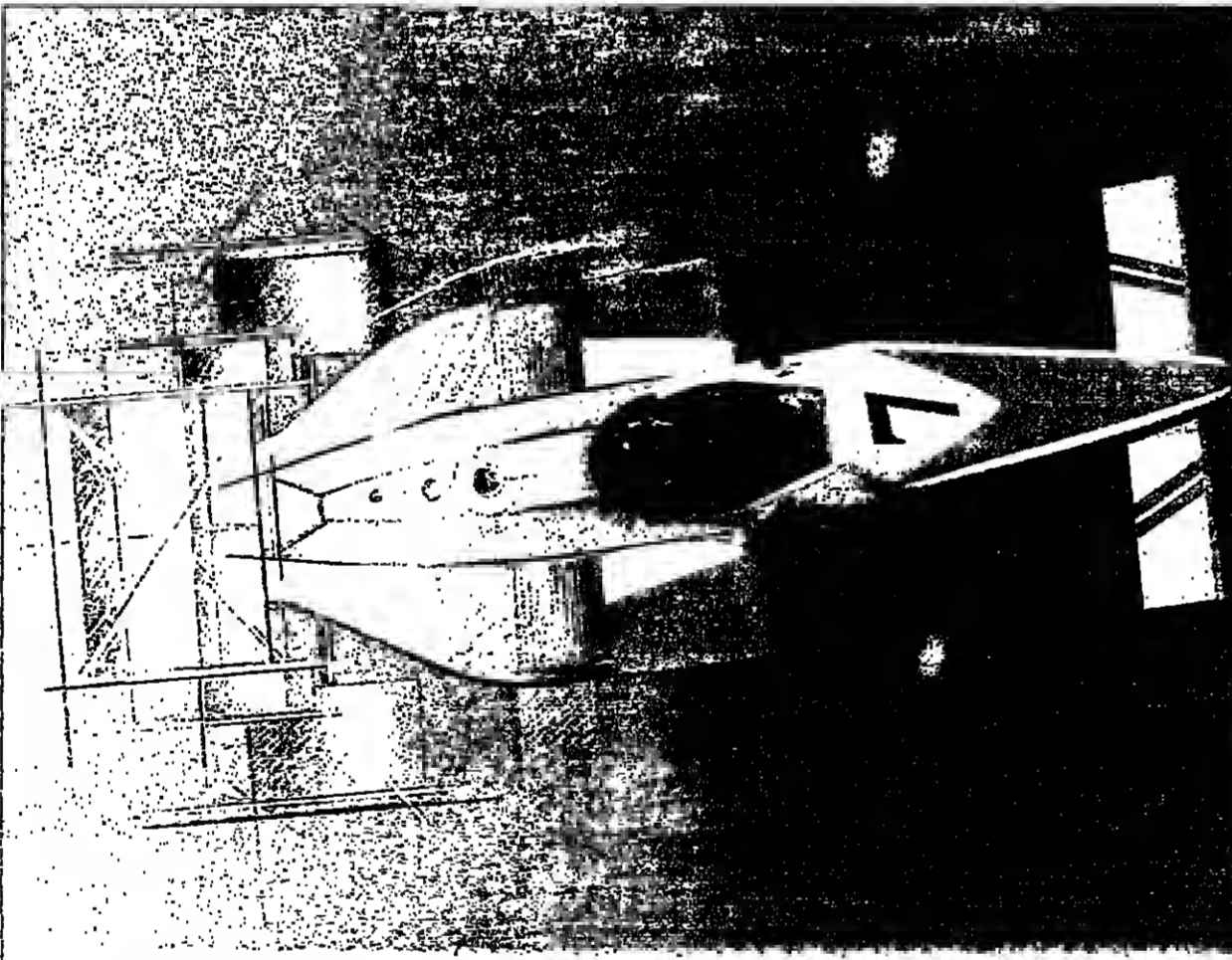
According to Sir Colin Campbell, vice-chancellor of Nottingham university, computer-aided learning for students outside the campus is a possibility, but it has a lower priority than improving the university's internal networks.

The Internet has already performed one task for higher education by making the life of researchers easier. It may be unwise to expect it to perform the quite different task of increasing student numbers. The Internet has many uses, but they are not always those that are touted by politicians.

Triumph and tragedy in post-Communist reform



'Transition Report Update (London: European Bank for Reconstruction and Development, April 1996); 'Transition Report 1995, EBRD; 'William Easterly, When is Stabilisation Expansionism?', Economic Policy, Centre for Economic Policy Research, April 1996; 'Robert Skidelsky and Liam Halligan, Macroeconomic Stabilisation in Russia: Lessons of Reform 1992-95 (London: The Social Market Foundation, 1996).



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LETTERS TO THE EDITOR

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Offer choice either way

From Mr John Murray.
Sir, In the recent kerfuffle about the rights and wrongs of a referendum on EMU, much has been made of the people's right to decide on an issue as important as the bolton of sterling. The government has now announced that one will be held, if and when a Conservative cabinet decides in favour of monetary union. What, however, if the government is inclined against participation? The economic and political consequences could be quite as great, and yet we are seemingly to be denied a direct say - a sorry prospect given the series of botched decisions which have marked our relationship with the EC and now the EU.

The prime minister affected by Germany's Chancellor Helmut Kohl to know the UK electorate's mind on EMU: I am not so sure. Unless a referendum is to be merely an additional obstacle to our involvement, it should be held to ratify a decision, whether to join or to stay out. The government, of whatever hue, should take steps in relation to the Maastricht criteria to ensure we are in a position to exercise a genuine choice either way.

John Murray,
9 Cambridge Street,
Tunbridge Wells,
Kent TN2 4SJ, UK

Gradual reform in Asia is a clear rebuke for Russian 'shock therapy'

From Prof Georgy E. Skovorov.
Sir, In his letter of April 24, Prof Jeffrey Sachs has admitted that shock therapy cannot work magic in south Asian countries because they are "overwhelmingly rural, peasant societies". However, the record of shock therapy in "overwhelmingly urban, industrial" eastern Europe is hardly any better. The UN Economic Commission for Europe, in one of its recent economic surveys, made a critical assessment of this concept and the contradictory results of its application in the region.

The significance of Estonia and Slovenia, which Prof Sachs lists as success stories in eastern Europe, is of limited value. Small countries with a population, respectively, of 1.6m and 2.5m people, cannot serve as a model for Europe or the world. This is especially so with Estonia, whose achievements are largely due to windfall profits from re-export of smuggled

non-ferrous metals from Russia. That factor made it the fourth largest world exporter of aluminium in 1993, though not a single ounce of it was produced on its soil. Poland is another favourite example of shock therapists. True, the country has attained the highest growth rates in eastern Europe. But it also has the highest rate of unemployment - 15 per cent of the labour force. That, along with other social strains, was behind a massive vote for the ex-communist Alexander Kwasniewski at the presidential ballot in December 1995.

Hungary, the Czech Republic and Slovakia have successfully moved to a market economy by implementing more gradual and less painful reforms. China has also demonstrated advantages of a gradual pragmatic reform strategy adapted to national circumstances.

Russia, by contrast, has firmly chosen the path of

"rapid" reforms totally unsuited to conditions. If there is a threat of the communist Gennady Zyuganov becoming the next president of Russia five years after the final demise of communism, it is largely due to Boris Yeltsin's confused reform strategy based on shock therapy and structural adjustment prescriptions. These policies discredited capitalism even before it was established in the country.

That is a lesson that cannot be ignored. Luckily, Asian nations follow a different path. Asian Development Bank backing of "gradual" reforms, based on common sense, historical experience and national traditions plays a significant role in the picture and is a clear rebuke to shock therapy.

Georgy E Skovorov,
visiting professor,
HEC School of Management,
7835 Jouv-en-Josas,
France

Nothing archaic about pre-emption rights

From Mr J.R. Gibb.
Sir, Sir, re rights issues, both the Office of Fair Trading and Lex ("UK underwriting", May 1) have lost their way over shareholders' interests. Pre-emption rights are not some ancient restrictive

practice: they are an essential part of maintaining the position of existing shareholders, especially small ones. In the absence of pre-emption rights it is far too easy for existing shareholders to be diluted out of existence.

This is not an imaginary notion - it used to happen. I suggest you get your Lex to read a little financial history.

J.R. Gibb,
36 Renfield Street,
Glasgow G2 1NA

An unfortunate constitutional comparison between US and UK

From Mr C.W. Raper.
Sir, Michael Prowse's article "Free from Royals" (May 6) is as remarkable for its blinkered ignorance as for its snide innuendo. Many of the practices in the US which he lauds in comparison to the despised British ways are, themselves, far from the perfection he claims.

The American "aristocracy" (and if one opposes the US to be free from class distinctions one has only to look at the plethora of social "A" and "B" lists, and societies restricted to descendants of the Mayflower, the Revolution and the Civil War) is apparently largely dependent on wealth. Why should that make it superior to the British aristocracy, for most of whom noblesse oblige has an enduring relevance, and whose sense of duty plays such an important part in charitable and public works?

The US judiciary is appointed for political reasons - the same reasons as Mr Prowse derides in respect of the House of Lords' political appointments. Is it better to have senior legislators appointed because of a lifetime of distinguished service in the law, or because of political favours and a perceived need for "political correctness"? While it may be true that the top echelons of UK business

have in the past been appointed from those who attended the "right" schools or universities, ability is now the overriding criterion. Mr Prowse's comments about the "supposed dominance of upper-class east coast families" are as relevant to the UK as he claims them to be to the US. The far from privileged origins of John Major, the prime minister, are well-known. The demoralised House of Lords has, time and again, proved to be a useful brake on the acts of the Commons. As for the attack on the Queen, I would suggest that a large majority of Britons (and other nationalities) would prefer to have an apolitical

head of state with a record of selfless service than yet another politician with all the seemingly ubiquitous attendant scandals that completely overshadow the over-publicised private misfortunes of the royal family.

Mr Prowse suggests that he might like to appoint himself emperor of somewhere. With his apparent penchant for self-exposure, he ought to buy himself a new set of imperial clothes while he is at it.

C.W. Raper,
E21 Pearl Gardens,
7 Conduit Road,
Hong Kong

Handwritten signature or mark at the bottom of the page.

1995

COMMENT & ANALYSIS

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
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Tuesday May 7 1996

World trade at risk

The failure of World Trade Organisation members to reach an agreement by last week's deadline to open global telecommunications markets is a setback not only for efforts to liberalise an important growth sector. It also augurs badly for the still larger tasks of defining a coherent agenda for multilateral trade policy and of establishing firmly the role and authority of the WTO. Though extension of the tele-communications talks may lead to a deal next year, the inconclusive outcome is deeply disappointing. An agreement would have provided badly needed political impetus ahead of the WTO's first ministerial meeting in Singapore next December. Instead, the result is a further loss of momentum, already impaired by the near-collapse of last year's financial services negotiations and the impasse in WTO talks on maritime services. In all these negotiations, the US has been the main problem. It was never likely to do much in a presidential election year about the sensitive issue of maritime services. But its stance on telecommunications is more surprising. US competitive strength in this sector is unchallenged and it had seemed to want a WTO agreement. After the better-than-expected negotiating offers by many developing countries, the US claim that it balked at a deal because of fact-dragging by a few is unconvincing. Washington's last-minute recalcitrance in the face of industrial and political lobbies looks the more likely culprit.

Unproductive squabbling

The fear is that such equivocation reflects a more fundamental weakening of US commitment to the multilateral trade system. Washington has already signalled that it views the December meeting as a routine stock-taking. Its main interest will be in pushing for action on labour standards and corruption. Its demands enjoy support from some industrialised powers, but they are opposed by other WTO members. Without a more substantive agenda, the meeting could be reduced to unproductive squabbling. That reinforces the need for a firmer consensus on the longer-

term development of the multilateral system. The WTO is still far from agreement on this central issue. It is essential if the organisation is to meet the challenge of trade regionalism and growing protectionist pressures in the industrialised world. If these trends eroded multilateral principles, every country dependent on a prosperous global economy would lose. Sir Leon Brittan, Europe's trade commissioner, wants the December meeting to pave the way for another comprehensive trade negotiating round. His proposal may be too ambitious. But it is on the right track. The WTO needs to have its activities underpinned by a solid drive for further liberalisation. How this can best be achieved should be high on the near-term agenda of regional trade groupings, as well as of individual governments.

Regional groups

Progress need not require a formal round, which many countries are reluctant to contemplate. The multilateral system could be greatly strengthened if countries and regional groups acted more boldly to open markets unilaterally. The EU should take the lead by undertaking to scrap minimal "nuisance" tariffs and, better still, by accelerating the opening of its textiles and agriculture markets. Members of the Asia Pacific Economic Co-operation forum need to extend their planned liberalisation to all trading partners. Emerging economies which are already lowering barriers unilaterally should make such moves irrevocable by "binding" them in the WTO, and eschewing other forms of protection, such as for infant industries. Some would doubtless oppose such an exercise, arguing that it does not guarantee reciprocal concessions. But countries need to move beyond the idea that they gain only by improving access to others' markets, and lose by opening their own. As many developing countries now accept, exactly the reverse is true. Others, particularly in the industrialised world, need to reinforce the global trade system; it would do their own economies a power of good.

Alliances, bids and jobs

Conventional wisdom tells us that as economies grow richer, the demand for financial services increases. Yet much of the financial news in the economies of the developed world has recently been about downsizing and cost cutting, rather than the generation of increased revenue. In the English-speaking economies, takeovers and mergers have become an especially potent engine of rationalisation. And the proposed merger between Royal Insurance and Sun Alliance suggests that the impetus may now be shifting from banking to insurance. With 5,000 jobs expected to go as a result of the merger, of which 4,000 are in the UK, this sounds like the kind of news the British labour market could do without.

To portray such mergers and acquisitions as purely a matter of cost cutting is nonetheless an over-simplification. There are undoubtedly areas of UK banking where rationalisation is needed. Capacity in the late 1980s had been geared to a level of mortgage and housing market activity that was unsustainable. Against that background, Lloyds Bank's acquisition of the TSB group, the Halifax building society merger and Abbey National's takeover of National Provincial can be seen as part of an unavoidable shake-out in the retail banking market, which still has a long way to go. Equally important, technology is imposing big structural adjustments on the financial services industry. The nature of banking relationships is changing, as automated teller machines distance the bank from the customer, while direct telephone banking brings them back together again in a different format. These changes have undermined the rationale of the banks' branch networks.

Lower costs

In insurance, where fixed costs have been lower than in banking, the advent of direct selling by telephone by companies like Direct Line is transforming the economics of the industry. The need for big investments in information technology and marketing means that mergers and acquisitions can provide a way of achieving lower costs per insurance policy where fixed costs can be spread over a

larger number of customers. Increased transparency in life assurance and pensions, meantime, is imposing a Big Bang on the industry, which will lead to a significant reduction in the number of players. It does not follow from this that the acquisition and merger activity is defensive. The Royal and Sun Alliance merger, for example, is driven partly by the need to develop a more powerful international presence. After a long period of introspection on the part of UK insurers, there may now be a sustained attempt to catch up with foreign competitors which have stolen a march. As for Halifax's proposed acquisition of Clerical, Medical and General, it is opportunistic in the sense that it seeks to take advantage of the trend towards convergence in retail financial services.

Mature businesses

The more important point, as far as the jobs market is concerned, is that while the older and more mature businesses are cutting jobs, younger businesses like Direct Line have been creating new jobs elsewhere in the sector. In the case of Midland Bank's telephone banking operation First Direct, the job destruction and job creation have been taking place within the same organisation. The process of creative destruction is nonetheless hugely stressful for those involved. It also spells the death of paternalism in a financial sector where the prevailing ethos for much of the post-war period had more in common with the civil service than the tradeable goods sector of the economy. Yet the fruits of earlier paternalism, in the shape of accumulated pension fund surpluses, can be used to finance generous redundancy payments which help mitigate the pain. In this respect white collar workers in banking and insurance are more fortunate than those who lost jobs in the 1980s in manufacturing, where pension provision was at a much lower level. For the middle classes, downsizing has brought a new and pervasive sense of insecurity. But they should not forget that for blue collar workers, this has long been a condition of existence.

Half a celebration for Chirac

Things are beginning to come politically and economically right for the French president at the end of his first year, says David Buchan

For Jacques Chirac, the first anniversary of his election as president a year ago today is not nearly as bad as he might have feared. Five months ago France was crippled by public-sector strikes. Since then, the Gaullist president has seen his standing rise in the opinion polls. He has given France a higher international profile and he recently helped to broker the truce in southern Lebanon between Israel and Hizbollah. Although France's involvement irritated some Americans it helped to overcome the bad taste left by his decision to test nuclear weapons in the Pacific. The economy shows signs of recovery, and the financial markets seem to approve of the government's handling of it. The franc is trading strongly against the D-Mark while France has had the great satisfaction of seeing the yield on its long-term treasury bonds sink last week to below the rate on German bonds. This is seen as an indication of renewed confidence in the government.

But Mr Chirac should only pour himself half a glass of celebratory champagne today. He is certainly not back on the path he might have hoped for this time last year. His poll rating in the opinion polls is still well below those of his predecessors, François Mitterrand and Valéry Giscard d'Estaing, after a year in office. In an anniversary article in yesterday's *Le Monde*, the French president could offer nothing more alluring to the electorate than to proclaim the need to "go further in cutting public spending because this is the only way to start reducing taxes from 1997".

This call for more sacrifice stems from the president's desire to push France's deficits down as close as possible to 3 per cent of gross domestic product next year in order to help it qualify to be a founder-member of European economic and monetary union. But the prospect of France hitting the 3 per cent target next year is far from guaranteed. In addition, there is a growing concern that continued austerity policies could jeopardise the government's parliamentary majority in the 1998 elections. Mr Chirac has certainly hit his stride in fulfilling the curious mixture of roles demanded of a French president under the Fifth Republic. His more informal approach appears to please a public that had wearied of the aloof style of his predecessor. In foreign and defence policy, his special constitutional prerogatives, he has been ready with the grand gesture - on Bosnia, Lebanon, nuclear testing and disarmament, and Europe - that his Gaullist constituency expects. Following General de Gaulle's belief that domestic issues were somehow secondary to foreign affairs, French presidents tend to subcontract economic and policy to their prime ministers, and Mr Chirac is no exception.

He makes public forays into domestic policy: a speech here on France's "social fracture", a visit there to a poor district, and a series of interventions in cabinet which range from encouraging and admonishing ministers to his recent extraordinary attack on superstores for "corrupting" planning officials, "blackmailing" suppliers and pushing small shopkeepers (a traditional Gaullist constituency) out of business. But the real power which the president wields in domestic policy is exercised largely behind the doors of the Elysée palace. His loyalty to Mr Alain Juppé, his prime minister, means that the



Jacques Chirac: the president is putting some of last year's troubles such as public-sector strikes behind him

inherent weakness of the Fifth Republic - the dependence of the prime minister on his presidential master - is not exposed. This is not to say that Mr Chirac has not had his doubts about Mr Juppé's policies or personality; it took the president more than five months publicly to support Mr Juppé's deficit-cutting last October, while during the strikes unleashed against the Juppé welfare reforms last December, Mr Chirac stayed almost totally silent. Nor does it mean that Mr Chirac will not ditch Mr Juppé sometime during his remaining six years in the Elysée; the latter will in any case want a break from his often thankless job if he is ever to have a tilt himself at the Elysée. But for the moment the Chirac-

Juppé team seems solid. Both men have improved their standing in the opinion polls, but Mr Juppé remains about 10 points behind Mr Chirac, suggesting that he is no longer dragging the president down but setting as a lightning rod for public discontent and deflecting it from him. With Mr Chirac behind him, Mr Juppé is recovering his nerve. To defuse the strikes in December, he abandoned his plan to streamline the SNCF state railways and to cut civil servants' pension benefits back into line with those of the private sector. But Mr Juppé argues, plausibly, that 90 per cent of his welfare reforms, particularly the trimming of extravagance in the health system and bringing social security under parliamentary (and thus gov-

ernment) control, have been put into effect. It remains doubtful whether the reforms were ambitious enough in the first place to bring about the modest social security surplus in 1997 on which the government's Maastricht arithmetic on deficits depends. On other fronts, Mr Juppé is also moving ahead. After only 45 per cent of France Télécom's 155,000 employees joined a protest strike last month against privatisation, Mr Juppé is preparing a bill which would permit the state to sell 49 per cent of the utility's capital to employees and outside investors. Significantly, one of the unions which has agreed to open negotiations with France Télécom's management on privatisation is Force Ouvrière, which at the national

level led the December strikes along with the pro-communist CGT union. At Mr Chirac's urging, Mr Juppé is now taking much more care to prepare the ground for his next attempt to put public finances in order than he did over welfare reform last autumn. The two men yesterday started a co-ordinated campaign to prepare the country for deep public spending cuts in the 1997 budget. Mr Chirac by penning his article in *Le Monde* and Mr Juppé by sending every MP a thick document on the French budget crisis in advance of the debate on that budget in the National Assembly next week. That budget will not be unveiled until September or October, but the aim of Mr Chirac and Mr Juppé is to start driving some impressive figures into the heads of MPs and ministers now. One of these is the likely cost (FF220bn) of debt servicing, which will account for 80 per cent of this year's budget deficit and 20 per cent of tax revenues. The point the government wants to drive home is that budget cuts are in France's interest. Deliberately, Maastricht is never mentioned, although the treaty is at the back of everyone's minds. Whatever level of cuts in spending programmes and even in civil servants' numbers the government can eventually force through, meeting the Maastricht targets will also depend on economic activity. The 5 per cent rise in January in consumer durables sales has proved to be a correction after the strike-caused decline in December rather than the start of a steady trend.

But surveys of industrialists, who have been heartened by interest rate cuts, confirm the government's hopes for a strongish recovery in the second half of this year. Unemployment is still rising slowly, but a hopeful sign came in March with a 2.2 per cent increase in job vacancies, often the precursor of a turnaround. It is therefore possible that France may confound the predictions of most international financial organisations and market analysts by coming very near in 1997 to meeting the Maastricht criteria.

In theory, the absence of elections this year and next should give Mr Chirac and Mr Juppé some political elbow room to push through unpopular measures. But in doing so they will not want to wreck their chances in 1998 - the year of all elections when membership of the National Assembly, regions, cantons, and one-third of the Senate is up for grabs. In the 30 parliamentary elections held since Mr Chirac came to power, the left has taken eight seats from the ruling centre-right coalition parties as the Socialist party begins its comeback under Mr Lionel Jospin. A growing number in the governing majority, particularly the Gaullist followers of Edouard Balladur, the former prime minister, and the new leadership of the UDF federation under Mr François Léotard, argue that only clear promises of tax cuts and an end to austerity will keep the centre-right in government after 1998. Mr Chirac might encourage Mr Juppé to broaden his government next year to include ring-leaders of this "awkward squad" of tax-cutters, as one adviser to Mr Juppé recently suggested in private. But they would demand a price for coming in to government, and Mr Chirac cannot be insensitive to the possibility of ending the final four years of his term in cohabitation with the left.

OBSERVER

Doris shows how to do it

Ennio Doris and Silvio Berlusconi have a lot in common. Both are rich, self-made men with a reputation for charismatic management. They also each own half of Mediolanum, the life insurance and financial services business, which goes public this month. At 55, Doris is slightly younger and ruddier-faced than the permanently bronzed media magnate, but he shares Berlusconi's habits of smiling a lot and wearing double-breasted suits. Doris linked up with Berlusconi in 1982 to sell insurance, but it seems he's now begun to show a flair for broadcasting, the former premier's favourite business. Launching the Mediolanum investment roadshow yesterday in Milan, Doris boasted about the high-tech links between HQ and the sales force. Once a week at dawn, Mediolanum transmits an hour of product information, market news and training tips to its 2,700 sales people, via a specially encoded channel borrowed from Telepiù, the pay-TV company founded by Berlusconi. It sounds like a classic example of synergy with Mediaset - Berlusconi's media company, also due for flotation this summer - but Doris says the television programme is all his own work. "The Mediolanum programme is

prepared in-house," he says, "and at a cost that some other companies can only dream of." Maybe Berlusconi, now devoting his time to leading Italy's political opposition, should watch out.

Inside a thin man

Anyone noticed the remarkable resemblance between Catherine Deneuve, the film star, and Donald Trump, the ravishing sex symbol famous for the size of his condominiums? Well, yes. A female reader wrote to the *New York Times* the other day asking why a recent article about The Donald had made no reference to his figure, when the accompanying photograph showed that he appeared to have put on some weight. Pointedly, she noted that a profile of Deneuve the day before had contained the remark: "She is perhaps not as slender as she once was." This prompted a lively riposte. The vainglorious Donald wrote in to say that if he had truly put on weight, like Deneuve, it should have been mentioned; but that, in reality, the picture made him look much heavier than he was, and in fact was "not correct". More realistically, however, another reader - predictably, male - suggested that the lack of any reference to The Donald's growing girth was easily explained; he had never appeared nude in a movie that made his shape a matter of

interest. Give him time.

Pig-headed?

Britain's embattled farm minister Douglas Hogg seems to have taken a vow of silence since arriving in Ottawa - situated on the tip of Italy's heel - for a two-day informal gathering of EU agriculture ministers. Inquisitive hacks have failed to elicit a word from Hogg, who has been taking full advantage of the fact that ministers, while normally perfectly helpful, are not actually obliged to face the press. It's therefore appropriate that Walter Luchetti, the Italian host, has chosen the San Domenico monastery for the ministers' final working session today. This holy place used to be run by Dominican monks, known as "the order of the preachers" because of their zealous evangelism. Expectant journalists hope Hogg gets the point before jetting back to London.

Most inflammatory

Crédit Lyonnais isn't the only group counting the cost of Sunday's fire, which ravaged its elegant 19th century Parisian headquarters. One of the bank's main insurers is Assurances Générales de France, poised for sale in France's first large privatisation of 1996. AGF executives assembled in

Paris for a press conference launching the sale yesterday said the bank had been right to say the FF1.5bn building was well insured "because it is insured by us". But they were careful to emphasise that AGF's bottom-line exposure on the fire was limited to FF750m. Antoine Jeancourt-Galignani, AGF's chairman, added that the group had put its property team at the bank's disposal, to help them find suitable alternative accommodation. Which shouldn't be too difficult, even in the well-heeled Opéra district, where the building is located. Paris office capital values have slumped in recent years, and "to let" signs are ten-a-penny.

Also evident was Jeancourt-Galignani's distaste for fragrances. Terms such as "is claw-back" and "le greenshoe" - both of which he was forced to use in his presentation - were, he declared, "absolutely barbaric". Observer agrees. So a bottle of malt whisky to the sender of the best French alternative for either or both: faxes only please to +44 171 873 3326, or a letter to the usual address.

Sanity and the cow

Latest bumper sticker in Montana, the US state that is home to cattle, the Unabomber suspect, and the "Fresman" currently resisting the FBI: "Montana - at least the cows are sane."

Financial Times

100 years ago

Importance of Pearl Harbour The Senate Committee on Foreign Relations has agreed to the Bill for the construction of a United States-Hawaii-Japan cable, and authorises the Postmaster-General to contract with any company to lay the cable, the subsidy not to exceed \$100,000 yearly. The report declares that the Hawaiian cable is demanded by the exigencies of commerce. It refers to the importance of Pearl Harbour and the necessity for telegraphic communication with Hawaii to direct the operations of the Pacific Fleet in the case of war.

50 years ago

The French referendum Paris, 6th May: The Referendum result acted as a tonic on the Paris Bourse to-day, which opened with a boom. The rejection of the proposed new constitution was generally unexpected, and the comparatively large "No" majority was particularly surprising. The market rightly or wrongly is now certain that any future Assembly will not vote for additional nationalisation and hopes for improved compensation terms for enterprises already nationalised.

Digital technology launch scheduled for 1997

BSkyB plans up to 500 more TV channels in UK

By Raymond Snoddy in London

British Sky Broadcasting, the satellite television venture, is expected to confirm today that it plans to launch digital satellite television in the UK in autumn 1997 and offer an unprecedented number of television channels. The satellite company, now capitalised at more than £8bn, (£12bn) is planning to launch up to 500 channels of television for the British market. BSkyB is expected to clarify its intentions today in a statement accompanying its first quarter results which will show continuing growth of both subscribers and revenue. BSkyB has been making preparations for the move for some time and has leased capacity on two Astra satellites devoted entirely to digital TV which already have been successfully launched. The company has, however, been cautious about the timing of the move because of its 4m cus-

tomers with satellite dishes using existing analogue technology. BSkyB is planning to offer a huge number of channels to persuade its customers to trade up to digital decoders - the black boxes that enable viewers to watch the satellite signal. The BSkyB approach will be to work in partnership with as many broadcasters as possible to make the overall package of channels as diverse and attractive as possible. It has announced a joint venture with Granada Television for eight new channels to be launched later this year and then transfer to digital. But BSkyB has also been talking to the BBC about the possibility of the Corporation providing up to 13 new channels for the digital system. Preliminary talks with Mr Richard Branson's Virgin Group have discussed providing channels for young people. Digital television has already been launched in the US, Africa, South America, France and Italy and will be launched in Germany

this summer. Digital technology allows eight to 10 channels to be carried in the satellite capacity currently transmitting one channel, thereby cutting the cost of broadcasting. Apart from offering a large number of new channels, digital TV will enable BSkyB to move to near-video-on-demand. NVOD involves setting aside anything from 60 to 100 channels for a small number of top films. As many as six channels are devoted to a single film and the starting times are staggered so that viewers are always only a short time away from the beginning of a movie they want to see. Digital satellite will also transform sports coverage. If agreement is reached with the Premier League, BSkyB will be able to show all Premier League games simultaneously on a subscription basis. Pay-per-view football via digital satellite is being launched by Canal Plus in France and by Telepiu in Italy at the start of the next football season.

Philippine president orders a kidnapping crackdown

By Edward Luca in Manila

President Fidel Ramos yesterday ordered 56 Philippine courts to concentrate exclusively on kidnapping and related cases in the wake of a survey which said the Philippines was the most dangerous country in the region in which to do business. The survey, published in Hong Kong by the Political and Economic Risk Consultancy, says expatriate business managers rate the Philippines as the least safe country in east Asia owing to a spate of recent kidnap-for-ransom cases. The poll, rating countries from one to 10, put the Philippines at 7.34, with Singapore as the safest with a ranking of 1.25. "We vehemently disagree that the Philippines is the most unsafe country in Asia," said Mr Hector Villanueva, spokesman for Mr Ramos, yesterday. "In Myanmar [Burma] people just disappear. I do not think that is happening here." Mr Ramos yesterday ordered the specially designated kidnapping courts to take a maximum of 90 days per case as the government unveiled measures to combat kidnappings of relatives of leading Philippine businessmen, who are usually Filipino-Chinese. Since 1992 there have been more than 600 cases of kidnapping, over 50 of them this year. Chinese-Filipinos, roughly 2 per cent of the population, make up about 60 per cent of the economy by market capitalisation. "The kidnapers target the Chinese-Filipino community and other Chinese because they are the most successful business group," said Mr Tereza Ang-See, head of an anti-kidnaping group in Manila. "They also target the Chinese because the Chinese are very liquid so they can pay up quickly and because they rightly do not trust the police." Pressure on the government, which has admitted that senior police officers are involved in kidnapping protection rackets, has mounted since the murder by kidnapers last month of 19-year-old Mr Luis Ongpin, nephew of a former finance minister. Philippine officials say the problem is more to do with perception than reality. With foreign investment more than doubling in the last three years, publicity surrounding kidnappings has increased a sense of alarm, they say. Recently the 18-year-old son of a Taiwanese diplomat, Mr Huang Ronghua, was released after a ransom of 1m pesos (\$38,500) was paid. "What should be corrected is the sensationalising of isolated heinous crimes," said Mr Villanueva. "There are probably more crimes committed in Manhattan in one week than in six months in Manila."

Austrian Communists sue Bonn over cold war profits

By Eric Frey in Vienna

Austria's minuscule Communist party has not won a parliamentary seat in 40 years. But the unchastened Stalinists were far better at making profits than winning votes. Now a case brought in a Berlin court yesterday could make the party richer by the equivalent of DM100,000 (\$67,000) a member. The party claims that DM500m in assets held by the German government are the fruits of its labours - some might say of its successful exploitation of a cold war market niche - as a broker between east and west. Companies controlled by the unwaveringly pro-Moscow Communist party earned huge commissions in the 1980s by arranging business deals between western companies and East European authorities. They came to an abrupt end with the fall of communism in 1989 when discredited East bloc party officials scammed for cover and for safe places to hide the money they were about to lose control of. The question now

before the Berlin court is not whether a devoutly Marxist party with 5,000 members and which won 14,000 votes at the last election in December should have amassed such a fortune - but to whom the money belongs. The plaintiff in the Berlin court case is Ms Rudolfine Steindling, manager of the Austrian Communist party-owned trading company Novum. After German unification, the Bonn government froze Novum's assets, claiming the company was a front for the East German Communist party and its financial wheeler-dealer Mr Alexander Schalck-Golodkowski. For the German government, the trial is part of a frustrating hunt for East German state funds that were transferred abroad in the chaotic months between the fall of the Berlin wall in November 1989 and unification in October 1990. In 1992 the Treuhander, the agency which took over all East German state assets, sued Ms Steindling for allegedly transferring DM450m from East Berlin through Austrian banks into

Swiss accounts. This case is still pending, but a Berlin court lifted an international warrant against Ms Steindling last month because of lack of evidence. Now Ms Steindling is fighting back. Her lawyers are arguing in court that Novum was really an intermediary between East Germany and western companies such as Voest-Alpine, the state-owned Austrian steel group, Ciba-Geigy, the Swiss chemicals concern, and Bosch, the West German electronics group. The two sides want to call up to 200 witnesses between them in the coming months. The trial could last several years and the outcome is hard to predict, say legal experts. A victory for Ms Steindling would not only be embarrassing for the Germans, but would also make the Austrian Communists the country's richest political group. The party leadership has made clear that regardless of its ideological leanings, it will fight for the money until the bitter end.

European groups to make joint missile bid

Continued from Page 1

monopoly of the international market with the Amraam. However, the UK is concerned that the Pentagon will not release the full technical data on Amraam to foreign countries, limiting any buyer's understanding of how the missile works. The

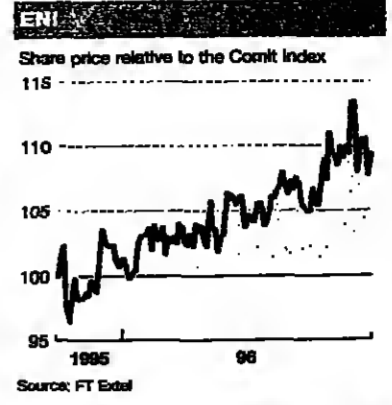
US could also bar exports of Amraam to third countries by the UK, effectively giving it a veto on Eurofighter exports. Hughes's bid for the UK contest will have to attempt to overcome these difficulties, which may prove hard. As a result, the new European consortium is strongly placed to

win the contest, provided its design is sufficiently advanced. Sweden, Germany, Italy and Spain are likely to be observers at the US competition, allowing them to evaluate the technical merits of the two rival bids. A decision is expected in the UK contest in the spring of 1997.

THE LEX COLUMN

Spoilt for choice

The prospects for Italian privatisations have never looked better. Three of privatisation's greatest political proponents - Messrs Romano Prodi, Carlo Azeglio Ciampi and Lamberto Dini - are likely to be at the core of Italy's new government, when it is formed over the next fortnight. Meanwhile, the Italian markets have reacted ecstatically to an election victory by what seems to be a fiscally responsible coalition.



The Treasury's £10,000bn (\$6.45bn) target for privatisation proceeds looks safe. The sale of residual holdings in Ina, IMI and Eni should be easily achievable and should raise at least that sum. Nonetheless, the government should not get carried away. It has a unique opportunity to broaden Italy's diminutive equity market, provide Italian industry with an alternative means of raising capital, and introduce competition to the monopolistic merchant bank, Mediobanca. It is unlikely to help the process by trying to force through sales of Stet and Enel, the monopoly telecoms and electricity companies, this year. Neither have regulatory authorities up and running yet. Enel is struggling with accusations of price rigging, while the authorities have still to decide on a structure for Stet. Moreover, both issues would be likely to clash with Deutsche Telekom's \$10bn share offer, due in November.

There are plenty of alternatives to choose from, such as Autostrade. And if the government wants to achieve more than just debt reduction, it should turn to the banks. Not only are there too many banks, but too few bank managements are accountable to anyone. The treasury should speed up the sale of Banca Nazionale del Lavoro, as well as applying moral suasion to the bevy of banks owned by charitable foundations.

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French/German bonds

For a Gaullist government, it must be particularly pleasing to note that French long-term interest rates have fallen below those paid by the German government on domestic debt. The implication is that France is now considered more creditworthy than Germany. There are some grounds for believing this. Germany's budget deficit problem now looks even worse than its neighbour's, and the French may solve theirs sooner. Not only does this make France's deficit appear less gruesome, it also means it matters less: since even Germany is unlikely to meet Maastricht targets, failure to do so is hardly likely to block France's participation in a single currency.

Return on investment

How do you know a company is doing well? When earnings per share (eps) are growing rapidly, would be the standard reply. Eps is the main valuation yardstick used by investors; it has also become something of a fixation within companies. Rentokil, most famously among UK companies, has a target of boosting eps by at least 20 per cent a year. One of the reasons it gobbled up rival services group, BBT, was to keep that growth rate going for a few more years. But eps is not a holy grail in determining how well a company is performing. This is not merely because managements still have latitude in deciding what earnings to report; it is also because eps growth says little about whether a company is investing shrewdly and managing its assets effectively. It may, for example, be possible to boost eps by stepping up the rate of investment. But unless the return on investment exceeds the cost

FT WEATHER GUIDE

Europe today
South-west Europe will be unseasonably cool and unsettled. Most of the Iberian peninsula will have frequent rain or thunder showers. France will be warmer but will have showers later. Cloud and patches of rain will linger near a front from Brittany across northern France to southern Poland. North of this front, north-easterlies will draw cool air over the Low Countries and northern Germany where it will remain dry with sunny spells. High pressure will promote calm conditions with sunny periods over the British Isles and southern Scandinavia. Thunder showers will develop over a wide area from the Balkans towards Moscow. The south-east Mediterranean and Black Sea areas will stay sunny and warm.

Five-day forecast
The Mediterranean area will remain unsettled during the next couple of days but the south-east will be dry, sunny and warm. Warm conditions with sunny spells will also persist across the Balkans and most of Russia. However, isolated thunder showers will develop each afternoon. Some of this warm air will be drawn towards western Europe during the weekend.

TODAY'S TEMPERATURES

Abu Dhabi	sun	41	Berlin	sun	15	Caracas	cloudy	29	Faro	sun	20	Madrid	shower	18	Rangoon	shower	31
Accra	sun	30	Belgrade	shower	12	Cardiff	cloudy	12	Frankfurt	sun	16	Geneva	shower	20	Riyadh	sun	5
Algiers	sun	19	Bombay	sun	32	Casablanca	shower	22	Glasgow	cloudy	13	Hamburg	cloudy	19	Rome	sun	25
Amsterdam	sun	14	Buenos Aires	sun	25	Dallas	sun	30	Harbin	sun	15	London	sun	13	S. Francisco	sun	19
Athens	sun	26	Chengde	sun	19	Dubai	sun	32	Heidelberg	sun	10	Manila	sun	35	Singapore	sun	27
Bahia	sun	32	Dhaka	sun	28	Durham	sun	21	Helsinki	sun	10	Medan City	sun	25	Stockholm	sun	11
B. Aires	sun	26	Hanoi	sun	28	Edinburgh	sun	17	Hong Kong	sun	27	Miami	sun	31	St. Louis	sun	22
Bham	sun	14	Havana	sun	25	Geneva	sun	19	Kobe	sun	21	Montreal	sun	18	Sydney	sun	20
Bangkok	sun	37	Jakarta	sun	32	London	sun	15	Kuala Lumpur	sun	28	Moscow	sun	23	Taipei	sun	21
Barcelona	sun	17	Khartoum	sun	38	Luxembourg	sun	19	Manila	sun	32	Munich	sun	19	Tokyo	sun	19
			Kuwait	sun	40	Madrid	sun	12	Manila	sun	32	Nairobi	sun	27	Toronto	sun	13
			Los Angeles	sun	23	Medan	sun	28	Manila	sun	32	Nassau	sun	27	Vancouver	sun	14
			Las Palmas	sun	25	Medan	sun	28	Manila	sun	32	New York	sun	15	Vernon	sun	21
			Lima	sun	25	Medan	sun	28	Manila	sun	32	Nice	sun	20	Winnipeg	sun	18
			Lisbon	sun	18	Medan	sun	28	Manila	sun	32	Orlando	sun	21	Washington	sun	19
			London	sun	15	Medan	sun	28	Manila	sun	32	Perth	sun	22	Wellington	sun	16
			Luxembourg	sun	19	Medan	sun	28	Manila	sun	32	Porto	sun	22	Winnipeg	sun	16
			Madeira	sun	20	Medan	sun	28	Manila	sun	32	Prague	sun	16	Zurich	sun	20

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

Oink!

Which company wouldn't like to have the guarantee, that the person applying for the job will turn out to be the perfect new employee. The larger the company becomes to receive such a guarantee. Not only do the qualifications as stated on paper count, but also international experience and familiarity with diverse cultures. If you are looking for a new employee for your international company, for instance in the areas of marketing, finance or business consulting, then take note of these three letters: **ESB**. They stand for the **NUMBER 1** German language business school, The European Study Program for Business Administration in Reutlingen, Germany. The curriculum is specially structured to the organization and needs of companies who do business internationally, mobility and flexibility are two words by which are lived. This means: all graduates of this school have studied in at least two countries, speak at least two languages fluently and have worked in at least two countries during their school period. **Guaranteed!** If you would like to receive further information about ESB or the partner programs, please contact:

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London, Great Britain, Mr. James Patterson, Tel. +44 181 362 5787, Fax +44 181 282 1539
Madrid, Spain, Mrs. Mar Escalante, Tel. +34 154 22800, Fax +34 154 17786
Reims, France, Mrs. Nicole Rogot, Tel. +33 26 77 47 47, Fax +33 26 04 69 63
Reutlingen, Germany, Mrs. Christine Mehl, Tel. +49 7141 271410, Fax +49 7141 240771

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